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ALBERTA'S KEY CHALLENGES AND OPPORTUNITIES

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ALBERTA FUTURES PROJECT PRE-PUBLICATION SERIES

Alberta has a long history of facing serious challenges to its economy, including shocks in the form of resource price instability, market access constraints, and federal energy policies. However, the recent and current challenges seem more threatening. It seems that this time is truly different.

The collapse of oil and gas prices in 2014 combined with the rapid growth of U.S. oil production, difficulties in obtaining approval for infrastructure to reach new markets and uncertainty regarding the impacts of climate change policies world-wide have proven to be strong headwinds for the province's key energy sector. Together, the negative effects on employment, incomes and provincial government revenues have been substantial. To make matters worse, in early 2020 the Covid-19 pandemic struck a major blow to the lives and health of segments of the population and to livelihoods in many sectors. The result has been further employment and income losses, more reductions in government revenues and huge increases in government expenditures and debt. These events, combined with lagging productivity, rapid technological shifts, significant climate policy impacts and demographic trends, call for great wisdom, innovation, collective action and leadership to put the province on the path of sustainable prosperity.

It is in this context that we commissioned a series of papers from a wide range of authors to discuss Alberta's economic future, its fiscal future and the future of health care. The plan is that these papers will ultimately be chapters in three e-books published by the School of Public Policy. However, in the interest of timeliness and encouraging discussion, we are releasing selected chapters as pre-publications.

ALBERTA IS DIFFERENT

There is something glorious about Alberta. This province has a special culture and character that doesn't exist in quite the same way in the rest of the country.

It may be our unique history – which drew people from around the world to homestead and cut out a living on the vast forested lands and harsh prairie – that makes us different from central Canada. The story of two founding nations doesn't quite resonate in Alberta. When General James Wolfe defeated General Louis-Joseph, Marquis de Montcalm on the plains of Abraham in 1759, the "western lands" were being explored by the Hudson's Bay Company and Northwest Company who were fur trading with First Nations (Marshall 2006, Gismondi 2020).

Alberta has a very different founding story, one based principally on trade, not conquest. The first settler and farmer was Irishman Sam Livingston, who settled in a place that was to become Calgary in the 1870s after returning from the 1849 California Gold Rush (Jameson n.d.). Legendary black rancher, John Ware, arrived in 1882 when he was hired to help bring 3,000 head of cattle from the United States and discovered such a high demand for experienced cowboys that he decided to stay (Bonikowsky 2013). The first Chinese pioneers arrived in Alberta in 1885 (Dawson 1991). Ukrainians came to Alberta in the early 1890s, most of whom homesteaded northeast of Edmonton (Makuch n.d.). Sikh immigrants were already in the Crowsnest Pass as early as 1903, as pictures from the Frank Slide disaster attest to (McGarvey 2018). Lebanese Muslim pioneer, Ali Ahmed Abouchadi, arrived in Lac La Biche in 1906 and learned to speak Cree after becoming involved in the indigenous fur trade (Munir 2017).

We are not two founding nations in Alberta. We have always been a melting pot of cultures from around the world. That's who we are.

CHARACTER OF THE PROVINCE: OUR MOST PRECIOUS RESOURCE

It doesn't take long for someone to come to Alberta and become an Albertan and everything that that means.

As a result of our history, the character of Albertans is both entrepreneurial and communal. It's a perfect mix of both in fact. We cherish our entrepreneurs and wealth creators, but we also expect them to be community leaders and philanthropists. Perhaps better than anywhere else in the country we understand that the success of our government is dependent upon the success of private enterprise.

We understand that we need to have robust, growing, profitable businesses in order for them to generate the revenues to pay for the social programs we all care about. It's why Albertans can accept having the lowest corporate income tax rate in the country. It's because we know that when businesses are doing well they hire more workers and pay them higher wages. Those high-wage workers then pay personal income taxes and spend money on restaurants, events, local shops and travel, which creates a virtuous circle of even more wealth and job creation. Go to any hospital or university campus and see who has sponsored a building or a wing. The titans of business – those who have benefited so much from the environment created by our government – have given back in spades.[1] They will continue to.

There have been times when we have allowed envy to creep in and cause harm, such as the disastrous 2008 royalty review which had to be largely reversed to restore the balance. But even that is a fundamentally Albertan characteristic. We make mistakes. But when we realize mistakes, we fix them.

As we look forward to life again after the pandemic comes to an end, we should have nothing but optimism for how the private sector will recover.

Alberta is entrepreneurial in the truest sense, as described by Austrian economist Joseph Schumpeter who coined the term creative destruction. We do not spend a lot of time thinking about how government should intervene to protect legacy industries. When businesses and sectors get demolished, Albertans get busy figuring out ways to create something new from the rubble. Our first energy boom was based on conventional oil. Our second energy boom was based on natural gas. Our third energy boom was centred on bitumen. Our fourth energy boom is going to be around hydrogen and carbon capture technologies. We keep moving forward. That is what we do.

Energy provides the foundation for our success and it is the perfect example of how Alberta entrepreneurs take a challenge and find a solution. Single pad drilling creating too much surface disruption? The industry develops horizontal multistage fracking. Oilsands mining creating a hazard with tailing ponds? The industry develops steam assisted gravity drainage. Excessive carbon dioxide creating an international furor? The industry develops carbon capture technology so it can be used for enhanced oil recovery or turned into useful products.

Even the efforts to stop Alberta companies from getting our energy to market shows this entrepreneurial mindset. Can't build pipelines? Transport it by rail. Tanker ban off the BC coast preventing us from exporting bitumen in liquid form? Bitcrude and Canapux develop a way to transport bitumen by rail in a semi-solid state so it can be shipped by container ship.

Do you see what I mean? There is no problem that is too big for our business leaders to solve. It's this character, this essential characteristic of Albertans, that is the most precious resource we have.

Whether it is forestry, or agribusiness, petrochemical refining, the new hydrogen hub, the film industry, nanotechnology, artificial intelligence, machine learning, or any other emerging industry, this character – we've got a problem, let's figure out how to solve it – spills over into every other sector.

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1 As examples see "Our History," Stollery Children's Foundation, https://www.stollerykids.com/about-us/our-history.aspx (accessed May 20, 2021) and "Haskayne donating millions to U of C business school", CBC News, May 28, 2002, https://www.cbc.ca/news/canada/calgary/haskayne-donating-millions-to-u-of-c-business-school-1.336657 (accessed May 20, 2021).

It spills over into the non-profit sector too. Whenever Alberta faces a calamity – a flood in southern Alberta, a fire in Slave Lake or Fort McMurray, COVID-19 – the first to spring into action are the charities and non-profits. Whether it's armies of volunteers assembling to muck out people's homes, or teams of helpers donating clothing and essentials to support those who wait weeks to return home after a fire, or community leagues setting up grocery drop-offs for seniors shut in and too afraid to leave their homes during a pandemic, Albertans don't just sit back and wait for government to solve all their problems. When we see a need, we hop to it and solve it ourselves.

I have never been so optimistic about Alberta's future. It's like that fallow field that is just waiting to be seeded, a metaphor that has shaped the historic character of our people. We have been resting, and thinking, and quietly dreaming. When we are free to meet and start actively creating again, which will be soon, our economy will take off like a rocket ship.

REINVENTING GOVERNMENT

The only question we have to ask ourselves, is why don't our governments reflect this same Alberta character?

Alberta is the youngest, freshest, most innovative province in Canada and yet our government is not.

That may have been the most shocking revelation of the past 15 months in the response to COVID-19. To see the health care system – the entity we love so much we have poured nearly half of all government revenue into supporting it – was simply not up to the job of managing the crisis.

If the can-do attitude of the private and non-profit sectors were present in Alberta Health Services, the approach would have been entirely different. We would have been the first to contract with Entos and Providence Pharmaceuticals to create a made-in-Alberta vaccine so that we could have provided this essential remedy to the entire country. We would have been the first to do random controlled studies on promising therapeutics so that we have treatments available for those who get sick. We would have built a custom hospital – like we did during the days of tuberculosis – so we could have housed COVID patients in separate facilities and kept our regular hospitals operating at full capacity. We would have adopted a 2 week on/ 2 week off staffing model at our long-term care facilities – something we are so familiar with in Fort McMurray – to keep both our seniors and staff safe. We would have done a call-out to retired health professionals to lend a hand if we encountered staff shortages. We would have deployed rapid testing at all of our government-run congregate care settings – including prisons and group homes – to make sure viruses didn't get into these places to wreak havoc.

Instead, we had a bureaucracy who followed the crowd and lazily took the path of least resistance, locking down the entire economy and blaming Albertans for not doing enough to avoid getting sick.

Alberta's greatest challenge in the future is to create a public sector culture that matches the can-do attitude that exists everywhere else in Alberta outside of government.

Does Alberta have a spending problem or a revenue problem? This is a question from an old paradigm, not the can-do, energetic Alberta paradigm. The question should be, is the Alberta government innovative enough? Is it striving to find new ways to deliver services so it can live within the very generous means that Alberta's robust economy generates?

Are politicians doing enough to create a high-performance civil service? Undoubtedly the answer is no. Health spending increased from $13.674 billion in 2008-09 to $25.230 billion in 2020-21 (Government of Alberta 2021 p. 186). At the same time waiting lists, even before COVID-19, increased. Red alerts on Emergency Medical Services became more frequent. Stacked waits in hospital emergency rooms remained excessive.

Money is not the problem in health care. A culture of complacency is the problem in health care.

If we have learned anything from our energy business, innovation is transformative and its results can be realized extremely fast. Horizontal multistage fracking came into its own in 2009 and by 2014 there was so much production of shale oil and shale gas that the prices had collapsed for both. That is creative destruction in action.

If we use the old paradigm for solving the current budget problem I predict it will never be solved. Alberta will continue to trundle along accumulating debt until finance charges – which are already at $2.764 billion – start eating into our ability to provide services (Government of Alberta 2021 p. 186). At some point, we will hit a debt wall and be forced to make deep and painful cuts.

The harsh reality is this. Not only does the province pay more per capita for government services than the other large provinces, it also has the lowest tax profile, largely because it doesn't charge a sales tax. For decades Alberta was able to continue the charade, offering year-over-year increases to appease and placate public sector unions, while reducing taxes to win over conservative-minded voters. What people forget is that former Premier Ralph Klein didn't cut taxes until he had the budget delivering healthy surpluses, and had made significant headway in setting aside enough money to pay off the debt.

The shocking tale of the Stelmach and Redford eras was how they both amped up spending on capital and operating expenses and allowed us all to live off windfall resource revenues to make up the difference. When energy prices collapsed at the end of 2014 the Alberta government plunged into deficits from which we've never recovered. The surplus in 2014-15 budget year was $1.115 billion. The following year the deficit was $6.442 billion and has never been lower in the seven years since. We've gone from net assets of $55.251 billion in 2014-15 to an expected net liability of $26.987 billion by the end of this budget year (Government of Alberta 2021 p. 186).

At this rate, revenues will never catch up to spending.

The apparent strategy appears to be, once again, to wait for the boom in resource revenues to bail us out. We may get lucky on this, but surely we must ask our government why it can't do better.

Whenever we have this regular budget calamity, commentators always bemoan the lack of diversification in the Alberta economy. But that's not really the problem. The problem is not a lack of diversification in industry, the problem is a lack of diversification in the provincial government's source of revenues, and a lack of innovation in the public service as a whole.

It's very telling when you look at the year-over-year changes in revenue in the year following the 2014 energy price crash (Government of Alberta 2021 p. 186).

Personal income tax revenues actually went up 2.8 per cent.

Other tax revenue went up 12.4 per cent.

Premiums fees and licences went up 0.2 per cent.

In fact, these three revenue sources have held remarkably steady over the last number of years, especially when compared to the volatility in resource revenue in the same year-over-year period.

Resource revenue went down 69 per cent in 2015-16.

Corporate income tax revenue went down 28 per cent.

The real problem with the provincial budget is that Alberta has built its operational spending for the vital services everyone needs – health, education, post secondary, social services – on volatile and unstable sources of funding. When revenues go down these areas are impossible to cut, not only because there is a strong public sector workforce that resists change, but because the public has no appetite to see these areas cut either.

This is the fundamental conundrum of Alberta. We want gold-plated services and we don't want to pay more taxes for them. Politicians are to blame for maintaining the fiction that this was sustainable. Anyone who proposes an alternative to raise taxes – the sales tax is the most obvious source of long-term revenue the province could adopt to solve this structural shortfall – it is instantly shot down by politicians fearing they won't be re-elected.

The other structural problem the government created in its revenues was a personal income tax with a very large – the largest in the country – basic personal exemption (Government of Alberta 2021 p. 160). Initially I supported the move, because it took the lowest income taxpayers off the tax rolls and allowed for families to get a large portion of their income shielded from tax to help pay for basics. The problem this has now created is that people think someone else should pay for the social services they need. That "someone else" is assumed to be the wealth and job creators of the province. But if you tax the wealthy too much, their capital is mobile. It can move to Panama and the government will get less than it has now. If you tax corporations too much, they don't have the means to create new jobs that generate new personal income taxes, which has proven to be a more stable long-term source of revenue.

So, we find ourselves at an impasse where people want their government to continue to increase spending, but taxpayers want their own taxes to go down and everyone hopes resource revenues materialize to pay for it all. It is absurd and dangerous.

Here is the rub. Alberta's expenses are now at roughly $55 billion. Debt servicing costs have climbed to $3 billion, for a total of $58 billion. Meanwhile, revenues are only reliably expected to generate $46 billion. That means there is a structural shortfall of $12 billion.

How big is $12 billion? It is more than Alberta collects in personal income taxes in a year. It's nearly the entire amount we spend on education and post-secondary combined. It is more than we've received in resource revenues in any given year going back to 2008/09.

Do you see the problem? We cannot balance the budget on resource revenues alone. We cannot balance the budget on tax increases alone. We cannot balance the budget on spending cuts alone. We have to do all three.

THE PATH FORWARD

So, let's deal with this in three parts.

MANAGING RESOURCE REVENUES

First, we have to fundamentally change the way we manage our resource revenues.

The time to permanently wean Albertans off their energy royalty dependence is now, while resource revenues are at the lowest they've been in more than a decade. The 2020-21 forecast for resource revenues is $1.978 billion. It's time to bite the bullet and say that this is the most resource revenue we will ever spend on operational needs again.

Then we must dust off the old idea that was much discussed and never implemented from the early 2000s when the government passed the Fiscal Responsibility Act and created the Sustainability Fund. The idea behind it at the time was to set a hard cap on how much resource revenue could be used for current yearly operational spending and sock away the rest for savings and capital investment (Morton 2018).

The first step in clearing the $12 billion structural shortfall is to generate $4 billion or more in new investment income.

Let's use historical data to get an idea of how powerful the rules-based budgeting approach outlined above could be. In 2008-09 – another calamity year with the financial market meltdown – resource revenues were $11.915 billion (Government of Alberta 2021 p. 186). The new budgeting model would have set aside a maximum of $2 billion of resource revenues for operational spending, with the balance being split evenly between capital investment and long-term savings.

As indicated in the Table below, had this approach been taken in 2008-09 and carried on, and the policy of increasing the fund in line with inflation continued, long-term savings would have grown to $65.608 billion by 2024 (the currently projected Heritage Savings Trust Fund balance for 2024 is $22.389 billion). Instead of generating a currently projected investment income of $1.343 billion in 2024, this level of savings would have generated $3.937 billion in that year. If government chose to save a higher amount, for instance 75 per cent of royalty revenues in excess of the $2 billion going to operations expenses, annual investment income would have grown to $5.233 by 2024 from a Heritage Savings Trust fund of more than $87 billion. Compound interest is deadly when you are in debt and it is working against you. Compound interest is a miracle when you have savings and it is working in your favour. (See calculations in Tables below).

If we adopted this approach today and future resource revenues were similar to the average over the 2009 to 2021 period, within 10 years we would have a stable, long-term, growing source of revenue that could close one-third or more of the $12 billion structural gap.

Scenarios for Savings																
Status Quo	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
(Millions)																
Royalties	$11,915	$6,768	$8,428	$11,636	$7,779	$9,578	$8,948	$2,789	$3,097	$4,980	$5,429	$5,937	$1,978	$2,856	$4,718	$5,869
Heritage Fund Actual	$16,900	$17,077	$17,500	$17,936	$18,176	$18,562	$18,860	$19,262	$19,836	$20,306	$20,700	$20,670	$20,950	$21,415	$21,898	$22,389
Inflation Proofing (Actual %)		1.05%	2.48%	2.49%	1.34%	2.12%	1.61%	2.13%	2.98%	2.37%	1.94%	-0.14%	1.35%	2.22%	2.26%	2.24%
Net Investment Income Actual (Total)	-$1,858	$3,541	$2,486	$2,168	$2,595	$3,423	$3,113	$2,544	$3,698	$3,126	$2,349	$2,828	$2,390	$2,205	$2,325	$2,478
Heritage Fund Return (Actual $)	-$2,501	$2,076	$1,152	$898	$1,465	$2,154	$1,825	$1,388	$2,467	$1,972	$1,071	$1,471	$1,257	$1,285	$1,314	$1,343
Net Return on Heritage Fund (Actual %)	-10.99%	12.16%	6.58%	5.01%	8.06%	11.60%	9.68%	7.21%	12.44%	9.71%	5.17%	7.12%	6.00%	6.00%	6.00%	6.00%
Source: Government of Alberta Fiscal Plans	p 58	p 57	p 60	p 28	p 27	p 27	p 24	p 35	p 53	p 53	p 110	p 86	p 86	p 86	p 86	p 86

If the Policy of Saving 50 per cent of royalty revenue above $2 billion had been implemented

Royalties	$11,915	$6,768	$8,428	$11,636	$7,779	$9,578	$8,948	$2,789	$3,097	$4,980	$5,429	$5,937	$1,978	$2,856	$4,718	$5,869
(Less) Cap on Operating $2B	$2,000	$2,000	$2,000	$2,000	$2,000	$2,000	$2,000	$2,000	$2,000	$2,000	$2,000	$2,000	$2,000	$2,000	$2,000	$2,000
Remainder for Split (50/50)	$9,915	$4,768	$6,428	$9,636	$5,779	$7,578	$6,948	$789	$1,097	$2,980	$3,429	$3,937	-$22	$856	$2,718	$3,869
Available for Capital	$4,958	$2,384	$3,214	$4,818	$2,890	$3,789	$3,474	$395	$549	$1,490	$1,715	$1,969	-$11	$428	$1,359	$1,935
Available for Long-Term Savings	$4,958	$2,384	$3,214	$4,818	$2,890	$3,789	$3,474	$395	$549	$1,490	$1,715	$1,969	-$11	$428	$1,359	$1,935
Heritage Fund Actual	$16,900	$17,077	$17,500	$17,936	$18,176	$18,562	$18,860	$19,262	$19,836	$20,306	$20,700	$20,670	$20,950	$21,415	$21,898	$22,389
Inflation Proofing		1.05%	2.48%	2.49%	1.34%	2.12%	1.61%	2.13%	2.98%	2.37%	1.94%	-0.14%	1.35%	2.22%	2.26%	2.24%
Starting Balance	$16,900	$21,858	$24,495	$28,396	$34,041	$37,425	$42,089	$46,295	$47,684	$49,670	$52,372	$55,136	$57,022	$57,783	$59,503	$62,235
Add Additional Long-Term Savings	$4,958	$2,384	$3,214	$4,818	$2,890	$3,789	$3,474	$395	$549	$1,490	$1,715	$1,969	-$11	$428	$1,359	$1,935
Subtotal		$24,242	$27,709	$33,214	$36,931	$41,214	$45,563	$46,689	$48,233	$51,160	$54,087	$57,105	$57,011	$58,211	$60,862	$64,170
Inflation Proofing		1.05%	2.48%	2.49%	1.34%	2.12%	1.61%	2.13%	2.98%	2.37%	1.94%	-0.14%	1.35%	2.22%	2.26%	2.24%
Total at Year End	$21,858	$24,495	$28,396	$34,041	$37,425	$42,089	$46,295	$47,684	$49,670	$52,372	$55,136	$57,022	$57,783	$59,503	$62,235	$65,608
Return on Investment (as above)	-10.99%	12.16%	6.58%	5.01%	8.06%	11.60%	9.68%	7.21%	12.44%	9.71%	5.17%	7.12%	6.00%	6.00%	6.00%	6.00%
Heritage Fund Return (Original)	-$2,501	$2,076	$1,152	$898	$1,465	$2,154	$1,825	$1,388	$2,467	$1,972	$1,071	$1,471	$1,257	$1,285	$1,314	$1,343
New Heritage Fund Return		$2,978	$1,869	$1,704	$3,016	$4,884	$4,480	$3,436	$6,177	$5,086	$2,853	$4,058	$3,467	$3,570	$3,734	$3,937
Increase in Investment Income		$902	$717	$806	$1,551	$2,730	$2,655	$2,048	$3,710	$3,114	$1,782	$2,587	$2,210	$2,285	$2,420	$2,593
Total Additional Revenue Available for Spending from Investment Income (sum of extra investment income)																$32,112
Total Capital Investment to Realize Investment Income (sum of royalty revenue placed into fund)																$35,353
Total Increase in Value of Heritage Fund																$43,219

If the Policy of Saving 75 per cent of royalty revenue above $2 billion had been implemented

Royalties	$11,915	$6,768	$8,428	$11,636	$7,779	$9,578	$8,948	$2,789	$3,097	$4,980	$5,429	$5,937	$1,978	$2,856	$4,718	$5,869
(Less) Cap on Operating $2B	$2,000	$2,000	$2,000	$2,000	$2,000	$2,000	$2,000	$2,000	$2,000	$2,000	$2,000	$2,000	$2,000	$2,000	$2,000	$2,000
Remainder for Split (25/75)	$9,915	$4,768	$6,428	$9,636	$5,779	$7,578	$6,948	$789	$1,097	$2,980	$3,429	$3,937	-$22	$856	$2,718	$3,869
Available for Capital	$2,479	$1,192	$1,607	$2,409	$1,445	$1,895	$1,737	$197	$274	$745	$857	$984	-$6	$214	$680	$967
Available for Long-Term Savings	$7,436	$3,576	$4,821	$7,227	$4,334	$5,684	$5,211	$592	$823	$2,235	$2,572	$2,953	-$17	$642	$2,039	$2,902
Heritage Fund Actual	$0	$2,978	$1,869	$1,704	$3,016	$4,884	$4,480	$3,436	$6,177	$5,086	$2,853	$4,058	$3,467	$3,570	$3,734	$3,937
Inflation Proofing		1.05%	2.48%	2.49%	1.34%	2.12%	1.61%	2.13%	2.98%	2.37%	1.94%	-0.14%	1.35%	2.22%	2.26%	2.24%
Starting Balance	$16,900	$24,336	$28,205	$33,844	$42,094	$47,049	$53,853	$60,012	$61,896	$64,587	$68,406	$72,354	$75,198	$76,200	$78,548	$82,404
Add Additional Long-Term Savings	$7,436	$3,576	$4,821	$7,227	$4,334	$5,684	$5,211	$592	$823	$2,235	$2,572	$2,953	-$17	$642	$2,039	$2,902
Subtotal		$27,912	$33,026	$41,071	$46,428	$52,733	$59,064	$60,604	$62,718	$66,822	$70,977	$75,307	$75,182	$76,842	$80,586	$85,305
Inflation Proofing		1.05%	2.48%	2.49%	1.34%	2.12%	1.61%	2.13%	2.98%	2.37%	1.94%	-0.14%	1.35%	2.22%	2.26%	2.24%
Total at Year End	$24,336	$28,205	$33,844	$42,094	$47,049	$53,853	$60,012	$61,896	$64,587	$68,406	$72,354	$75,198	$76,200	$78,548	$82,404	$87,218
Return on Investment (as above)	-10.99%	12.16%	6.58%	5.01%	8.06%	11.60%	9.68%	7.21%	12.44%	9.71%	5.17%	7.12%	6.00%	6.00%	6.00%	6.00%
Heritage Fund Return (Original)	-$2,501	$2,076	$1,152	$898	$1,465	$2,154	$1,825	$1,388	$2,467	$1,972	$1,071	$1,471	$1,257	$1,285	$1,314	$1,343
New Heritage Fund Return		$3,429	$2,228	$2,108	$3,792	$6,249	$5,807	$4,460	$8,033	$6,643	$3,744	$5,352	$4,572	$4,713	$4,944	$5,233
Increase in Investment Income		$1,353	$1,076	$1,210	$2,327	$4,095	$3,982	$3,072	$5,566	$4,671	$2,673	$3,881	$3,315	$3,428	$3,630	$3,890
Total Additional Revenue Available for Spending from Investment Income (sum of extra investment income)																$48,168
Total Capital Investment to Realize Investment Income (sum of royalty revenue placed into fund)																$53,029
Total Increase in Value of Heritage Fund																$64.829

USER FEES

The next step in closing the gap is to generate $4 billion from new user fees.

We can no longer afford universal social programs that are 100 per cent paid by taxpayers. That is the simple truth. Taxpayers do not want to throw more money at an inefficient system. Public servants don't want to reform the system from within. The only option is to allow people to use more of their own money to pay their own way and use the power of innovation to deliver better services at a lower cost.

The fundamental rethink that needs to happen in health care is to create a patient-centred system. It has to be more than a slogan. It has to have buy-in on the part of practitioners and patients. It has to be built on a model that is already working. It has to shift the burden of payment away from taxpayers and toward private individuals, their employers and their insurance companies.

What the government needs to do is create matching Health Spending Accounts for all Albertans. The government should pledge to match up to $375 per person and challenge individuals and employers to do the same. The benefit of a Health Spending Account is that it allows people the means to pay for services that are uncovered and largely preventative – massage therapy, physiotherapy, dieticians, prescriptions and so on. By taking responsibility for their health and giving people the means to do so, it should translate into less pressure on the hospital system and better chronic care management which will bring costs down.

But once people get used to the concept of paying out of pocket for more things themselves then we can change the conversation on health care. Instead of asking, what services will the government delist?, we would instead be asking what services are paid for directly by government, and what services are paid for out of your Health Spending Account?

My view is that the entire budget for general practitioners should be paid for from Health Spending Accounts. If the government funded the account at $375 a year, that's the equivalent of 10 trips to a GP, so there can be no argument that this would compromise access on the basis of ability to pay.

What it would do is allow for people to make their own choices about the type of medical practitioner they want to see in a year. Maybe I would prefer to see a dietician to give me a nutrition tune-up. Maybe I need to see a psychologist to deal with the mental stress of lockdown for the last year. Perhaps the pain in my shoulder can be better treated by a physiotherapist. For parents with healthy kids but crooked teeth, it could even be used to help defray the cost of braces. Or help cover the costs to fill a cavity.

A Health Spending Account would actually create a system with more comprehensive coverage than it currently has now.

But we could take it one step further.

I think is time to redefine universality. Universality must mean that no one is denied care when they need it and no one should face bankruptcy because of medical bills. Full stop.

It does not mean that we must maintain a system of arbitrary rules for what you must pay for out of your own pocket and what government must pay for exclusively on your behalf.

We should begin to talk about creating a publicly administered health insurance system based on principles of proper insurance. In a proper insurance program, there is usually a deductible or co-payment on services until it reaches a certain maximum when catastrophic coverage kicks in.

If we establish the principle of Health Spending Accounts, then we can also establish co-payments. It doesn't need to be onerous, and it could be on a sliding scale. If you earn less than $75,000 a year, there would be no deductible. If you earn $75,000 to $150,000 a year, there would be a $500 deductible. If you earn more than $150,000 a year, there would be a $1000 deductible.

I don't believe Albertans are willing to pay one penny more for an underperforming health system and watch their dollars evaporate without any improvement in performance. I'm willing to bet most Albertans would be willing to pay up to $1000 if it would reduce waiting times on vital treatments for themselves or a family member.

I can guarantee you as well that if the government creates this structure, business and non-profits will step up. Employers will make matching contributions to Health Spending Accounts. Non-profits will be established to make charitable contributions to the Health Spending Accounts of low-income earners so they can get a broader range of health services. Because that is the character of Albertans. We take care of each other. It's what we do.

REENGINEERING THE DELIVERY OF SERVICES

The final step in closing the $12 billion structural gap is to generate $4 billion in spending efficiencies by reengineering how programs are delivered.

You will note, before I even talked about how to reduce the cost of health care and find efficiencies, I identified two ways to generate new revenue that will address at least $8 billion of Alberta's structural deficit. In other words, I'm proposing that two-thirds of the problem be addressed on the revenue side.

I know Albertans will do their part to keep on generating revenue for government. But the public service needs to be put on notice. Their underperformance cannot continue. It must stop now.

On a base of $55 billion in spending, finding $4 billion in savings amounts to a 7.2 per cent cut, to take spending down to $51 billion. There is no painless way to do this, unfortunately. Bureaucracies have proven themselves to be terrible at finding efficiencies. They are geared to grow. The only way to make substantial and significant changes in the way programs are delivered is to allow contracting out, competition and choice.

The model for K-12 education is the model the government needs to embrace for health care. There are four ways to deliver education in Alberta. Public schools are 100 per cent publicly funded and publicly delivered. Charter schools are publicly funded but privately delivered and are forbidden from charging tuition fees. Private schools can charge tuition, but only receive up to 70 per cent of the per student basic grant (about $5500 per student). Home schooling is the most cost-effective of all for the government (about $850 per student).

Where this model has the opportunity to make a major difference is health care. There should be similar options. Public hospitals that are publicly funded and publicly delivered. Charter hospitals that are publicly funded and privately delivered and cannot charge extra fees. Private hospitals that can receive contracts for publicly paid services as well as serve paid customers (foreign clients on a pay-for-service basis to remain in compliance with the Canada Health Act). Home-based health care such as doctor house calls, home care and midwife services.

Evidence from Saskatchewan suggests that privately run surgical centres can reduce waiting times substantially (MacKinnon 2016). The beauty of an alternative delivery model is that it also offers choice for front-line workers. It must be horribly demoralizing to only be able to work for a single employer. If you don't like your work, the only option is to leave the profession. Having multiple service providers allows for the creation of multiple creative environments that will be better for patients and staff alike.

Charter hospitals can create a world of new opportunity. They can specialize in the delivery of a particular service whether hernias, like the prestigious Shouldice Clinic, or knees and hips, like Health Resource Centre did before the government shut them down, or cataracts, like the Mitchell Eye Clinics.

We could have specialized birthing centres, so new moms could have a custom environment to offer the most pleasant experience possible to welcome the new member of their family. Maybe moms would even be able to opt for longer stays to get used to the new life they are going to have with their baby, the way they used to at the Grace Hospital.

Maybe we would develop a Mayo Clinic north, which would specialize in diagnostics. Rather than waiting months between appointments to see a specialist, you could make an appointment and see all the specialists you need to see on a given day.

Maybe there will be a lab specializing in mapping your genome, so you can take proactive measures to guard against the diseases you are most likely to develop.

Maybe a specialty clinic will develop for rare diseases, and have such a large number of patients from around the world that they can procure specialty drugs from pharmaceutical companies at a reasonable price.

The point is we don't know what we don't know. That is the beauty of entrepreneurship. Someone will conceive of a brilliant way to do things differently that will not only deliver better patient care but do it in a way that reduces the cost for all of us.

IN CONCLUSION

Alberta's biggest danger in the next 10 years is that the government will fritter away yet another boom by doing things the same way it always has.

Albertans can forgive mistakes as long as they are corrected. Albertans cannot forgive the mania of making the same mistake over, and over, and over, and over again.

With the way the world of energy is changing, this may be the last energy revenue windfall the Alberta Government receives. The challenge is to make the most of it.

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About the Author

Danielle Smith is the President of the Alberta Enterprise Group.

As a University of Calgary graduate with degrees in Economics and English, Danielle has had a lifelong interest in Alberta public policy and finding the right balance between free enterprise and individual freedom, and the role of government.

Danielle's public policy experience began with an internship at the Fraser Institute. She was also elected as a trustee for the Calgary board of education and served as the director of the Alberta Property Rights Initiative and the Canadian Property Rights Research Institute. She was also the director of provincial affairs for Alberta with the Canadian Federation of Independent Business. She was a Member of the Legislative Assembly for Highwood, leader of the Official Opposition, and leader of the Wildrose Party.

Before entering politics, Danielle had extensive experience in the media. Most recently she was a radio host with Corus Entertainment for six years. She was also an editorial writer and columnist at the Calgary Herald, she served as host of Global Sunday, a national current affairs television talk show, and was the host of two programs on CKMX 1060 AM radio in Calgary, Health Frontiers and Standing Ground. She has made frequent guest appearances as a commentator on TV and radio.

She married her husband, David Moretta in 2006 and together they own and operate The Whistle Stop Diner, a fully renovated 1940s railcar dining car. She is the proud stepmother of David's son Jonathan. Danielle and David live in High River with their two dogs, Caine and Colt.

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