A Friend in Need:
Recognizing Alberta's Outsized Contribution to Confederation

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Contents

Executive summary

Historically, Alberta has made an outsized contribution to Canada's economy and federal public finances. This report quantifies Alberta's role in Canada's economic and fiscal well-being in recent years.

Specifically, it shows that Alberta has contributed disproportionately (relative to its population) to federal revenue, GDP growth, job creation, and business gross fixed capital formation.

For example, between 2004 and 2014, the number of private sector jobs in Alberta increased by an average of 2.7 percent annually. By comparison, the ten-province average for this metric was just 1.0 percent. Between 2004 and 2014, 32.5 percent of all private sector jobs created in Canada were created in Alberta.

Without Alberta's large contributions to Canadian economic growth, the country's recent overall economic performance would look very different.

Consider the popular narrative that holds that Canada survived the 2008/09 recession and is thriving in the post-recession years to a greater extent than the United States. If we exclude Alberta from the country's total, the rest of Canada's average real per person annual economic growth is just 1.1 percent since 2010. This compared to 1.2 percent in the United States. In short, Canada's overall superior economic performance relative to the United States in the post-recession era is largely attributable to strong growth in Alberta.

Alberta's strong economic growth and job creation did not exclusively benefit people already living in that province. The jobs and high incomes created in Alberta during this time generated opportunities for people across the country who were willing to relocate to Alberta to take advantage of them. Between 2004 and 2014, net interprovincial migration to Alberta was positive by 270, 926 people. Many from elsewhere in Canada improved the lives of their families by seizing opportunities in Alberta's booming economy.

Alberta's booming economy was also beneficial to the rest of the country through the province's contribution to federal finances. Between 2007 and 2015, Albertans paid $188.6 billion more in federal taxes than they received in transfers and federal programs. This measure excludes contributions and payments from the Canada Pension Plan. Once these amounts are included, Alberta's net contribution rises to $221.4 billion. Without Alberta's large contributions to federal finances, the federal government would have run much larger deficits during and after the 2008/09 recession, and since then would not have come close to balancing its budget.

After the paper documents Alberta's contributions to Canada during its period of economic strength, we turn to the less happy economic circumstances facing Alberta today. Specifically, having shown how important it is for Canada to have a strong Alberta, we itemize a number of actions that governments across the country can take to help improve Alberta's prospects for a strong recovery. These actions include: refusing to obstruct the construction of needed energy infrastructure that has been deemed environmentally safe; not further undermining Alberta's tax competitiveness through federal tax increases; and re-examining dimensions of the country's system of federal transfers.

Of course, the policy decisions that will most influence Alberta's future growth prospects are not being made in other parts of the country—they are being made in Edmonton. Unfortunately, Alberta's recent policy choices are undermining these prospects. Substantial rate increases to economically inefficient taxes along with spending increases that have contributed to a rapid run-up in debt are two examples of recent policy choices that will leave the province fighting headwinds as it tries to grow economically.

Alberta has much work to do in order to begin helping itself and creating the conditions for a strong sustained recovery, but the decisions made by governments in other parts of the country can make that work easier or harder. Canadians in other provinces should consider Alberta to be a "friend in need" and avoid policy choices that will unduly hinder Alberta's prosperity.

Introduction

Within Canada, Alberta has historically punched above its economic weight. This paper quantifies Alberta's contribution to Canada's economic and fiscal health in recent years and outlines what other governments across the country can do to help the province during the difficult economic period it is still enduring.

For many years, Alberta has been the most affluent province in Canada. It has had a standard of living that is among the highest of any jurisdiction in the world. But it's not just Albertans who have benefited from the province's prosperity; Alberta's economic strength has also been beneficial for the rest of the country in several different ways. In particular, Alberta has contributed disproportionately to Canada's economic growth throughout much of recent history. This also means that the province has accounted for a disproportionate share of the growth in federal revenues, which has funded programs for all Canadians including federal transfer payments.

In addition to Alberta's direct contributions to the country's economy and finances, it has also been an important contributor of ideas and policy innovation. Its historical commitment to fiscal responsibility (though recently abandoned, at least temporarily) and a competitive tax system have provided helpful pro-growth policy examples for the rest of the country.

Furthermore, Alberta's rapid pace of job creation has afforded economic opportunities not just for people currently living in the province, but for migrants from elsewhere in Canada who have improved their circumstances by moving to the province. Canadians have become used to the idea that Alberta is a place where people from across the country can move when they are seeking opportunities to prosper.

Unfortunately, recent years have been economically difficult for Alberta. The province has gone through a deep recession, in large part due to a substantial decline in oil prices starting in late 2014. Furthermore, during the recession, the provincial government has initiated a number of major policy changes (including substantial increases to some of the most distortive taxes in the province's revenue mix), which will reduce the province's prospects for a sustained and robust economic recovery. In addition, the province has increased spending steadily despite the rapid downturn in revenue and, as a result, is accumulating public debt at a pace unseen in any large province in Canada since the fiscal consolidations of the 1990s. This rapid increase in provincial debt will be a legacy of the current downturn that may last long after the recession is over.

Even as the province leaves the trying recession behind, it is still in considerable economic pain as unemployment rates remain high. Moreover, neither employment levels nor nominal GDP have recovered to their pre-recession levels.

The plan of this paper is as follows. The first two sections document the extent of Alberta's disproportionate contribution to Canada's economic growth in recent years and to the federal government's fiscal balance, particularly over the 2004-2014 decade and prior to the major downturn in commodity prices that began in 2014 and have continued through the resulting recession.

Next, having established the extent of Alberta's contribution to Canadian prosperity and public finances during its period of strong economic growth, the paper's third section considers what the rest of the country can now do to assist Alberta in its recovery. Specifically, we discuss the need to accommodate the development of the pipeline infrastructure necessary to get Alberta's most important product to the international market.

In documenting the steps that other governments across Canada can take to help Alberta get back on its economic feet, so to speak, it's important not to distract from the fact that the most important policy choices for Alberta's economic future must be made in Edmonton itself. Economic growth in the province can be driven by spending restraint (to slow the rapid pace of debt accumulation) followed by tax relief (to restore the Alberta tax advantage). Indeed, such policies are likely more important for Alberta's recovery than any actions other governments around the country can take.

Nevertheless, given the difficult circumstances it faces, other governments across the country could help Alberta. Specifically, other jurisdictions could avoid taking actions and making policy decisions that hinder Alberta's strong recovery. Alberta's growth has been of benefit to Canadians from coast to coast over the past decade. It is vital that all Canadians know that an economically vibrant Alberta makes for an economically vibrant Canada. This report aims to show what forms help from other jurisdiction can take.

Alberta's Outsized Role in the Canadian Economy

Alberta was a relatively small province of 2.3 million in 1981. Since then, its population has increased significantly faster than the rest of Canada and now stands at 4.3 million. As figure 1 shows, this increase has raised the percentage of Canadians living in Alberta from 9.2 to 11.7 percent.

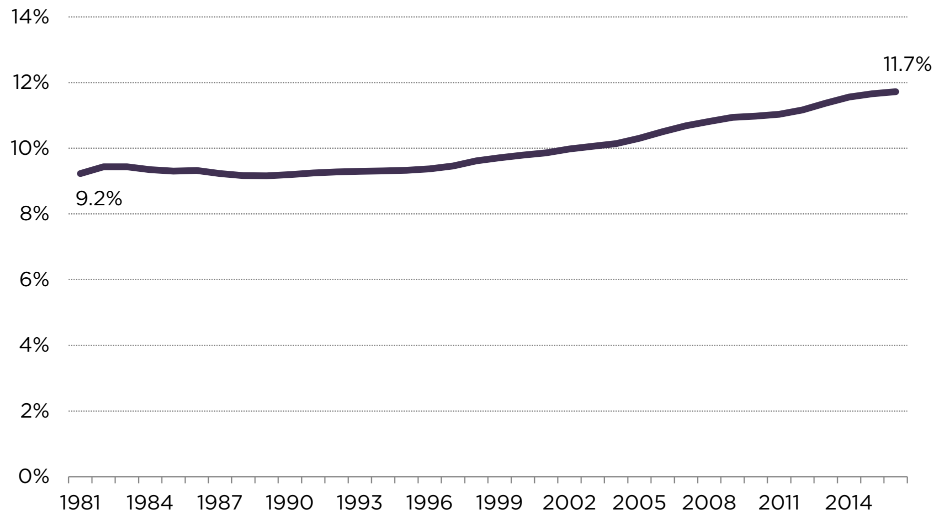
Alberta's rapid growth was driven largely by economic opportunity. Figure 2 shows that despite economic fluctuations, Alberta's share of national GDP has been consistently higher than its population share since 1981. At the height of the energy boom in 2014, Alberta contributed 18.8 percent of GDP despite having only 11.6 percent of the country's population. Alberta's share of national GDP increased significantly (from 14.6 to 18.8 percent) in the decade immediately prior to the recent recession and its drop in energy prices (2004-14).

The increase in Alberta's share of national GDP was, of course, driven by faster GDP growth than was experienced by the country as a whole. Indeed, between 2004 and 2014, Alberta's inflation-adjusted annual economic growth averaged 3.4 percent, compared to 1.6 percent in Canada (excluding Alberta). Figure 3 compares inflation-adjusted average annual economic growth between 2004 and 2014 in Alberta to all other provinces, and to the rest of Canada.

Alberta's real GDP grew by nearly a full percentage point faster than that of Saskatchewan, Manitoba, and British Columbia, the provinces with the next highest growth rates. In fact, Alberta's 3.4 percent GDP growth rate was more than twice the average rate of the other nine provinces (1.6 percent).

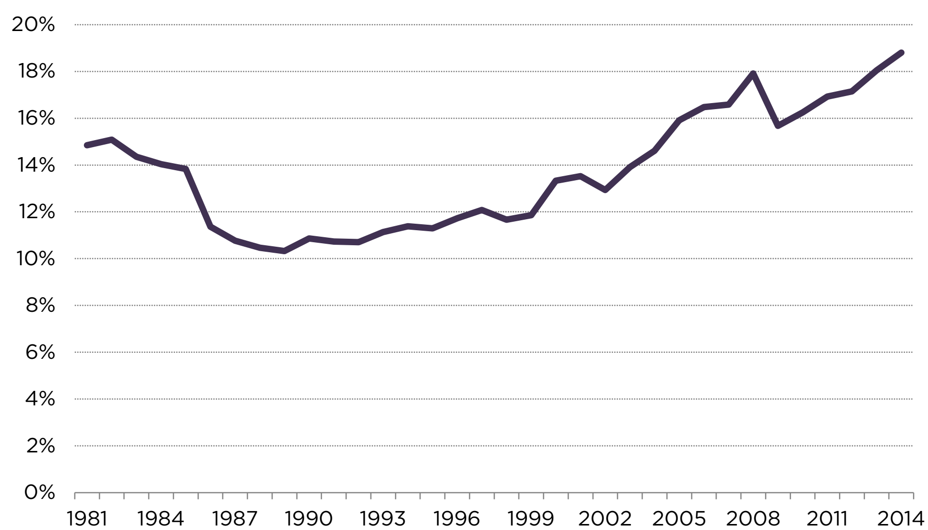
Clearly, throughout the past decade, Alberta's economic engine has represented a large and growing share of the Canadian economy. As the following section will show, the province's strong economic performance during this stretch has contributed significantly to Canada's overall economic performance since 2004.

Figure 1: Alberta's Share of Canada's Population, 1981-2016



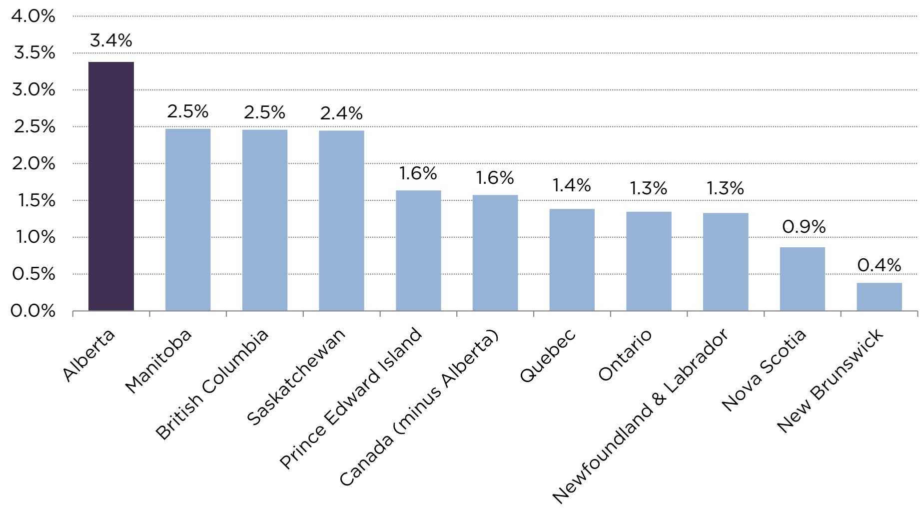
Sources: Statistics Canada, 2017a; calculation by authors.

Figure 2: Alberta's Share of Canada's GDP, 1981-2014



Sources: Statistics Canada, 2017e; calculation by authors.

Figure 3: Average Annual Real GDP Growth Rates of Canadian Provinces, 2004-2014



Sources: Statistics Canada, 2017e; calculation by authors.

Alberta's Contributions to the Canadian Economy During the Oil Boom

We have seen that between 2004 and 2014, Alberta led Canada in economic growth. Relative to its share of the national population, the province disproportionately contributed to the country's overall economic growth rate during this period. Figure 4 illustrates this by showing what share of Canada's economic growth in each year between 2004 and 2014 is attributable to Alberta's economic growth.[1]

Figure 4 shows that Alberta's annual contribution to Canada's economic growth ranged from a low of 9.4 percent to a high of 42.9 percent during this period.[2] This despite the fact the province was home to about 11 percent of the nation's population throughout the period.

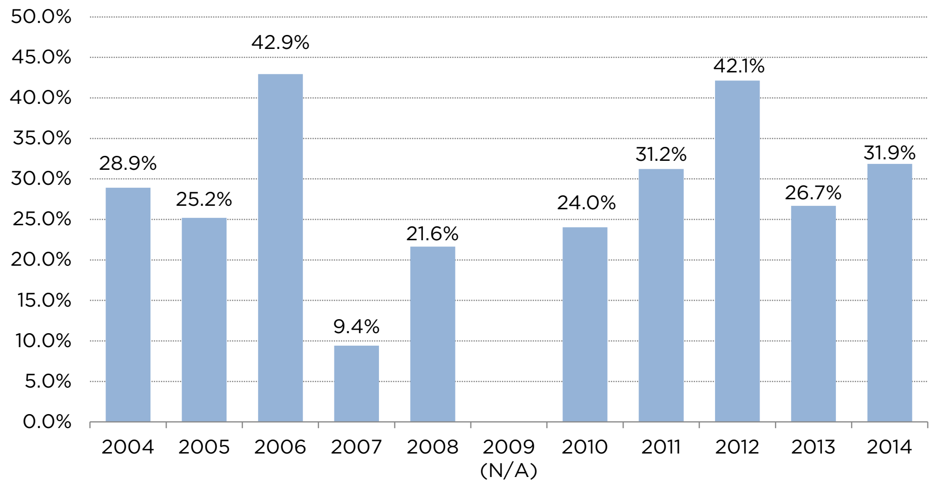
The province's rapid GDP growth translated into robust private sector job creation. Indeed, Alberta was responsible for a disproportionate share of job creation in Canada throughout this period. Figure 5 shows that the number of private sector jobs in Alberta increased by an average of 2.7 percent between 2004 and 2014. By comparison, the 10-province average for this metric was just 1.0 percent over the same period. The province with the next highest rate of private sector employment growth, Saskatchewan, clocked in at 2.0 percent.

Another way to illustrate the magnitude of Alberta's contribution to national job creation is to look at the total number of jobs created in Al-

[1] The figure excludes 2009 because Canada (and Alberta)'s economic growth that year was negative.

[2] The estimates provided in this section hold growth in other jurisdictions fixed—they assume that those regions are not influenced by Alberta's economic growth rate. In reality, the likelihood is that if Alberta's growth were lower over this period, growth in other regions would have been lower as well. For example, Alberta buys inputs for its own production processes from elsewhere, meaning that Alberta's growth contributes to interprovincial exports (and growth) elsewhere. The result of this simplifying assumption is that our estimates are likely conservative and probably understate the true impact of Alberta's strong growth on Canada's economic performance.

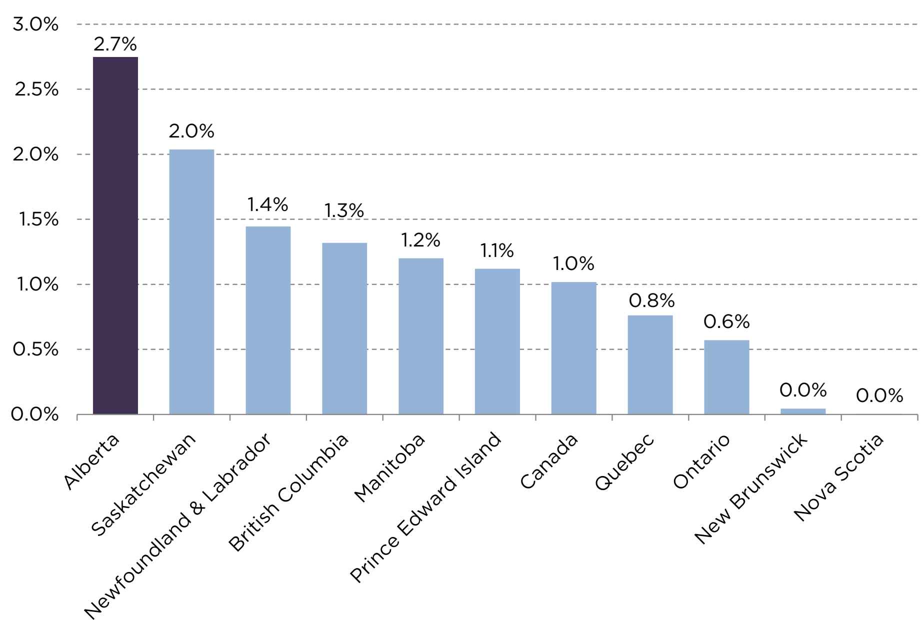
Figure 4: Alberta's Contribution to Canada's Real GDP Growth, 2004-2014



Note: The year 2009 is excluded because Canada (and Alberta)'s economic growth that year was negative.

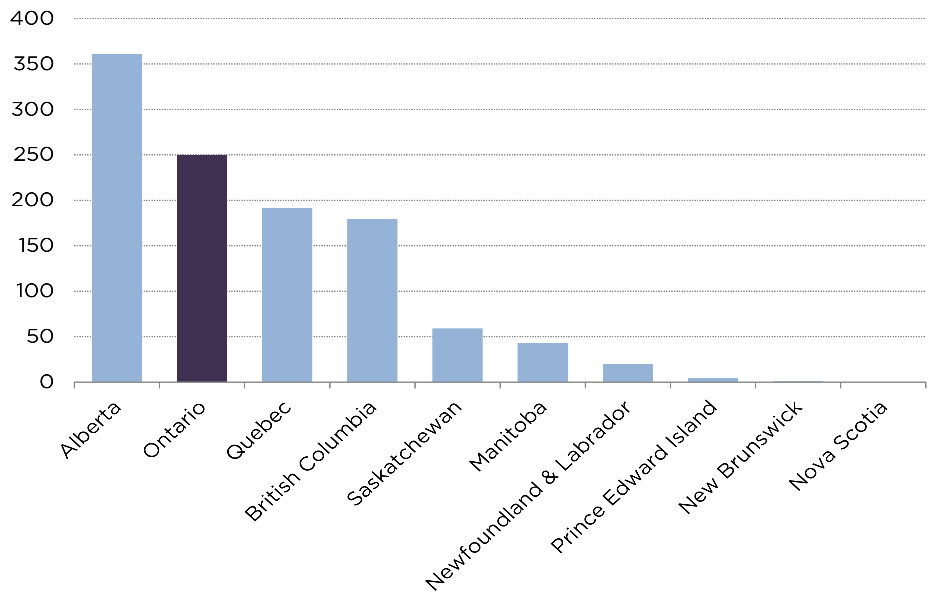
Sources: Statistics Canada, 2017e; calculation by authors.

Figure 5: Average Annual Growth (%) in Private-Sector Employment in Canada and the Provinces, 2004-2014



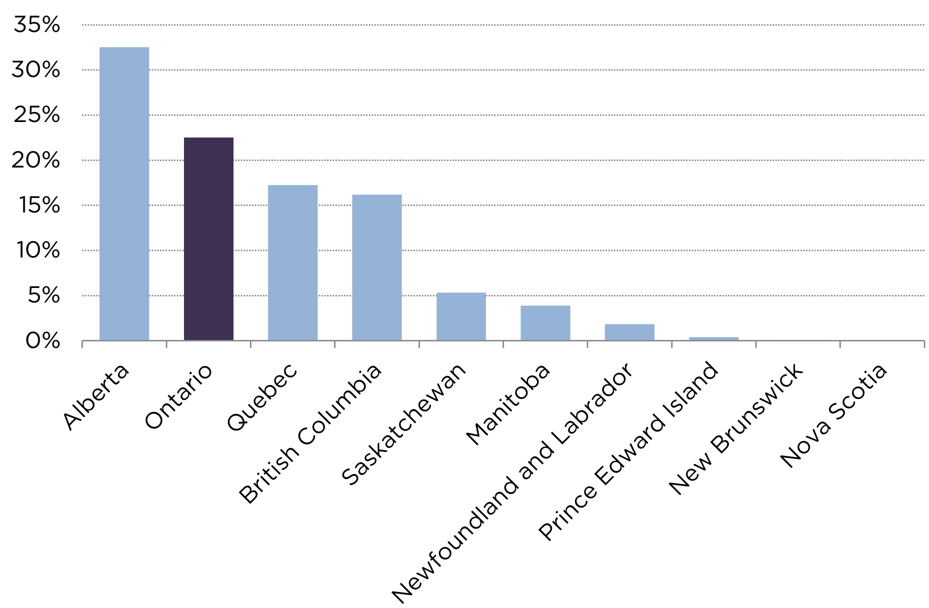
Sources: Statistics Canada, 2017c, 2017d; calculation by authors.

Figure 6: Total Private Sector Job Growth, 2004-2014 (thousands)



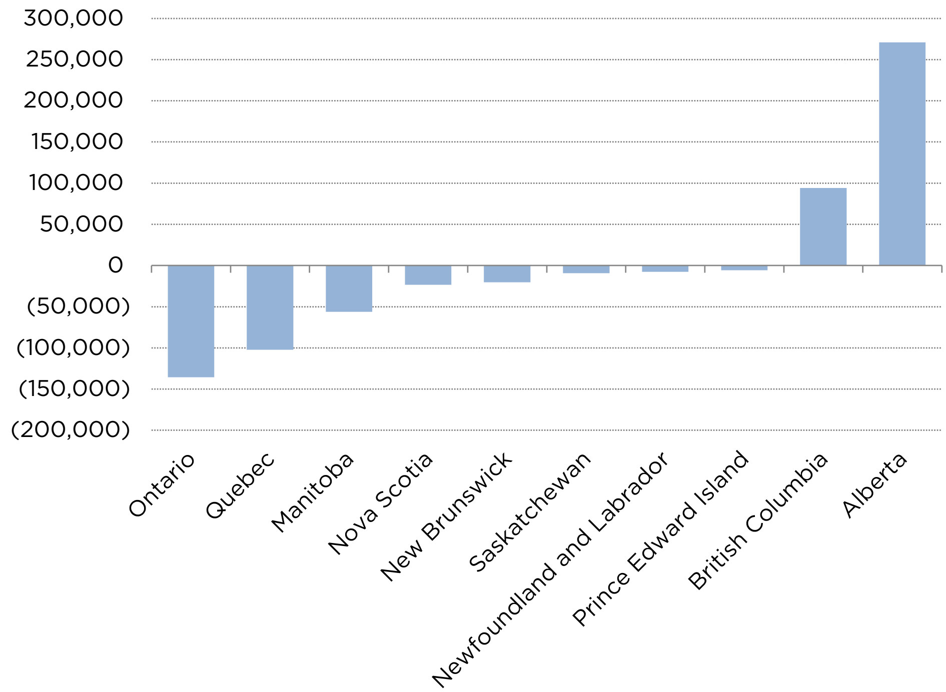
Sources: Statistics Canada, 2017c, 2017d; calculation by authors.

Figure 7: Percentage Average of Canadian Private Sector Jobs Created by Province, 2004-2014



Sources: Statistics Canada, 2017c, 2017d; calculation by authors.

Figure 8: Total Net Interprovincial Migration by Province, 2004-2014 (number of people)



Sources: Statistics Canada, 2017b; calculation by authors.

berta between 2004 and 2014. Figure 6 shows that Alberta added 361,000 jobs during that period, eclipsing the contribution of vastly more populous Ontario by more than 100,000 jobs.

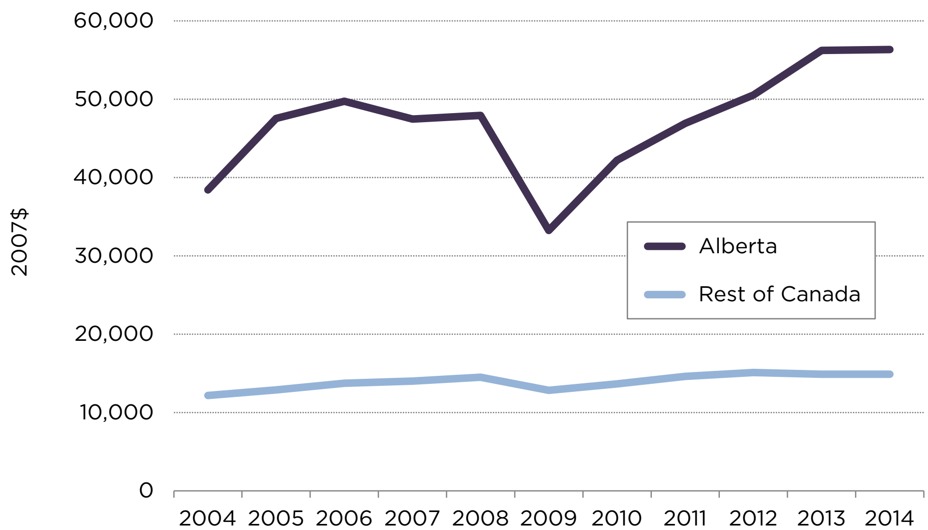
To put the raw job creation numbers in context, figure 7 shows that between 2004 and 2014, Alberta's economy created a greater proportion of total Canadian private sector jobs (32.5 percent) than did any other province. This is despite the fact that Alberta has just over a quarter of Ontario's population and half of Quebec's population.

This job growth did not benefit just those already living in Alberta. The jobs and high incomes created in Alberta during this time generated economic opportunities for people across the country who were willing to relocate to Alberta to take advantage of them.

Figure 8 shows that between 2004 and 2014, a net total of 270,926 people from elsewhere in Canada migrated to Alberta. A great number of Canadians were able to improve their families' lives by seizing the opportunities that Alberta's booming economy provided.[3]

[3] This metric understates the employment benefits to Canadians outside of Alberta,

Figure 9: Business Gross Fixed Capital Formation (excluding residential), per Private Sector Worker, 2004-2014



Sources: Statistics Canada, 2016c, 2016d, and 2016e; calculation by authors.

Almost certainly, the vast majority of these relocations were undertaken for the purpose of pursuing economic opportunities. Alberta was one of just two provinces (British Columbia was the other) with positive domestic net migration during this time and had, by far, the larger net migration total over the decade. By one estimate, Canada's unemployment rate would have been 2.23 percentage points higher in August 2014 had employment in Alberta only grown at the same rate as Ontario's. In fact, Canada's unemployment rate would have been substantially higher in nearly every year over the past decade and a half without Alberta's high job growth rate (Kneebone, 2014). The same study showed that if Alberta's job creation rate had merely matched Ontario's between 1995 and 2014, approximately 411, 000 fewer Canadian jobs would have been created.

since many residents of other provinces worked in Alberta during this period without establishing residence. A 2012 report from Alberta Finance estimated that there were 130,000 "interprovincial employees" working in Alberta that year (Alberta Finance, 2012). Examples of such workers are "fly-in-fly-out" workers employed with oil companies in Northern Alberta. They typically work for several weeks in Alberta, staying in work camps, then return home between work stints.

In addition to being an attractive economic destination for individuals during the decade in question, Alberta was also a major destination for business investment. To measure business investment, we compare inflation-adjusted gross fixed capital formation (excluding housing) per private sector worker across Canada. Figure 9 shows that on this metric as well, Alberta punches well above its weight.

Over the course of the decade, gross fixed capital formation per private sector worker was consistently much higher than in the rest of the country. Indeed, between 2004 and 2014, this type of investment averaged $46, 967 (in 2007$) per private sector worker, compared to $13, 944 (in 2007$) in the rest of Canada. Another way to look at it is that between 2004 and 2014, 32 percent of all gross fixed capital formation in Canada occurred in Alberta—roughly triple its share of the provincial population.

It is difficult to overstate Alberta's contribution to Canada's overall strong economic performance in recent years. There is a popular narrative that says that Canada survived the 2008/09 recession better, and thrived in the post-recession years to a greater extent, than the United States. But to a large extent, this story is only accurate thanks to Alberta's strong performance. One recent analysis has shown that from 2010 to 2014, many Canadian provinces (specifically, Ontario, Quebec, Nova Scotia, New Brunswick, Prince Edward Island, and Newfoundland & Labrador) had rates of real per capita GDP growth either similar to or below the United States' average annual rate of 1.2 percent (Di Matteo et al., 2016).

Indeed, when Alberta is excluded from Canada's total, average real per person annual economic growth in the rest of Canada has been 1.1 percent since 2010, compared to 1.2 percent in the United States. This means that Canada's overall superior economic growth performance compared to the United States in the post-recession era is largely attributable to strong growth in Alberta. Clearly, Alberta punched above its weight in the decade prior to the recent recession, and has been a major contributor to the country's overall economic performance.

Alberta's Fiscal Contributions to the Rest of Canada

Canadians have benefitted greatly from Alberta's strong economic performance over the past decade, particularly due to the province's substantial net contributions to federal finances. In other words, Alberta's robust economy has enabled it to contribute federal tax dollars at a rate disproportional to its population. Of course, these tax dollars fund programs that all Canadians receive. On the other side of the ledger, its strong provincial economy between 2004 and 2014 lessened or entirely obviated the need for various federal expenditures to be made in Alberta. Employment Insurance is a good example of the former type of expenditure, and equalization payments of the latter (Alberta has not received equalization payments since the late 1950s). Alberta's reduced need for federal spending meant that more resources were available to fund programs and direct transfers to governments and people in other parts of the country.

Alberta continues to make these contributions, despite its recent economic decline. The rest of this section documents Alberta's fiscal contribution to Confederation in recent years.[4]

The most discussed fiscal benefit that Albertans provide to the rest of Canada is its outsized contribution to the equalization program. While residents of all provinces contribute to the program, it is designed to return funds only to those governments deemed to be lacking fiscal capacity. Alberta has not qualified for payments at any point in recent history. As table 1 shows, the transfer of revenues from "have" to "have-not" provinces can be substantial, ranging from a total of $3.5 billion to PEI between 2008/09 and 2017/18 to $87.9 billion to Quebec during the same period. Payouts from the equalization between 2008/09 and 2017/18 are projected to total $158.3 billion, none of which will accrue to Alberta.[5]

[4] This section analyzes the period from 2007/08 to 2017/18, the period for which the department of finance makes available detailed statistics on federal-provincial transfers in a manner consistent with projections for the current fiscal year.

[5] Alberta did, however, receive a $251.4 million fiscal stabilization payment from the federal government in 2016. In contrast to the equalization program, it is a short-term

Table 1: Total Equalization Payments Received by Province ($ millions), 2008/09—2017/18

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Total
Newfoundland & Labrador	0	0	0	0	0	0	0	0	0	0	0
Prince Edward Island	322	340	330	329	337	340	360	361	380	390	3,489
Nova Scotia	1,465	1,391	1,110	1,167	1,268	1,458	1,619	1,690	1,722	1,779	14,669
New Brunswick	1,584	1,689	1,581	1,483	1,495	1,513	1,666	1,669	1,708	1,760	16,148
Quebec	8,028	8,355	8,552	7,815	7,391	7,833	9,286	9,521	10,030	11,081	87,892
Ontario	0	347	972	2,200	3,261	3,169	1,988	2,363	2,304	1,424	18,028
Manitoba	2,063	2,063	1,826	1,666	1,671	1,792	1,750	1,738	1,736	1,820	18,125
Saskatchewan	0	0	0	0	0	0	0	0	0	0	0
Alberta	0	0	0	0	0	0	0	0	0	0	0
British Columbia	0	0	0	0	0	0	0	0	0	0	0
Total	13,462	14,185	14,372	14,659	15,423	16,105	16,669	17,341	17,880	18,254	158,350

Source: Canada, Department of Finance, 2017.

While Albertans have received no direct benefits from the equalization program, they have contributed disproportionately to the federal revenue that funds it by virtue of higher income levels and, therefore, higher federal tax payments per person. For example, in 2014, 17.8 percent of all federal revenue came from Alberta, a far greater share than the province's 11 percent share of the national population. This means that of the $158.3 billion paid out in equalization payments from 2008/09 to 2017/18, approximately $28.1 billion came from Alberta.

Equalization is not the only program that transfers revenue from the federal government to provincial governments. Other prominent transfer programs are the Canada Social Transfer and the Canada Health Transfer. Table 2 shows that federal fiscal transfers add up to $1,955 per capita in 2016/17, with Alberta receiving considerably less than the average at $1,361. The amount Alberta receives is the lowest level of transfers among the provinces, though the amounts Saskatchewan, British Columbia, and

measure meant to help "provinces that are facing significant year-over-year declines in their revenues resulting from extraordinary economic downturns" (Canada, Department of Finance, 2016). Nevertheless, this is the equivalent of a fraction of a percentage point of equalization payouts during the period examined.

Table 2: Total Fiscal Transfers per Capita by Province, 2008/09—2017/18

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	Total
Newfoundland & Labrador	2,189	2,088	2,401	2,204	1,231	1,270	1,281	1,313	1,364	15,341
Prince Edward Island	3,344	3,502	3,459	3,423	3,508	3,575	3,730	3,769	3,922	32,232
Nova Scotia	2,702	2,822	2,787	2,808	3,014	3,153	3,181	3,235	3,223	26,926
New Brunswick	3,144	3,318	3,308	3,300	3,300	3,304	3,466	3,524	3,621	30,282
Quebec	2,055	2,126	2,178	2,159	2,146	2,196	2,388	2,464	2,567	20,278
Ontario	1,015	1,098	1,176	1,307	1,430	1,469	1,402	1,482	1,526	11,905
Manitoba	2,751	2,779	2,742	2,717	2,683	2,657	2,622	2,651	2,678	24,282
Saskatchewan	1,071	1,138	1,117	1,129	1,176	1,225	1,258	1,311	1,362	10,788
Alberta	812	854	904	922	943	970	1,260	1,310	1,361	9,337
British Columbia	1,045	1,086	1,127	1,171	1,215	1,262	1,255	1,311	1,362	10,834
Total	1,497	1,568	1,626	1,681	1,729	1,772	1,830	1,897	1,955	15,555

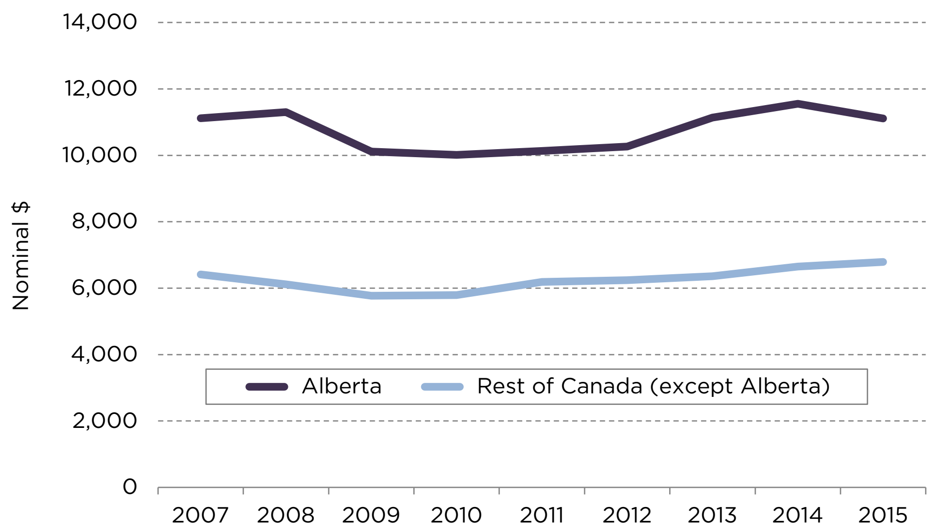
Source: Canada, Department of Finance, 2017; Statistics Canada, 2017a; calculation by authors.

Newfoundland & Labrador received in 2016/2017 are very similar. The difference between these and the "have-not" provinces is driven by the equalization payments outlined in table 1.

As noted, the primary reason for Alberta's disproportionate contribution to federal finances is that the province enjoys higher per-capita incomes than the rest of the country (as was the case even during the recent recession). This means that a larger share of federal tax revenue comes from the typical Albertan than the typical person elsewhere in Canada. Figure 10 shows this reality directly, demonstrating, that in every year between 2007 and 2015, per-capita federal tax revenue from Alberta exceeded the national average. For example, in 2015, federal tax revenue amounted to $11,110 per Albertan, compared to $6,792 from those in the rest of the country. In other words, on average, Albertans paid about 63 percent more in federal tax dollars than did other Canadians.

Partly because of the factors already described, when all revenues and expenditures are taken into account, the scale of Alberta's net fiscal contribution to federal finances in recent years is exceptionally large. Figure 11 illustrates each province's net contribution to federal finances every year from 2007 to 2015. In each of these years, Alberta has been (and in

Figure 10: Federal Tax Revenue Per Capita, Alberta and Rest of Canada, 2007-2015



Sources: Statistics Canada, 2017a and 2017f; calculation by authors.

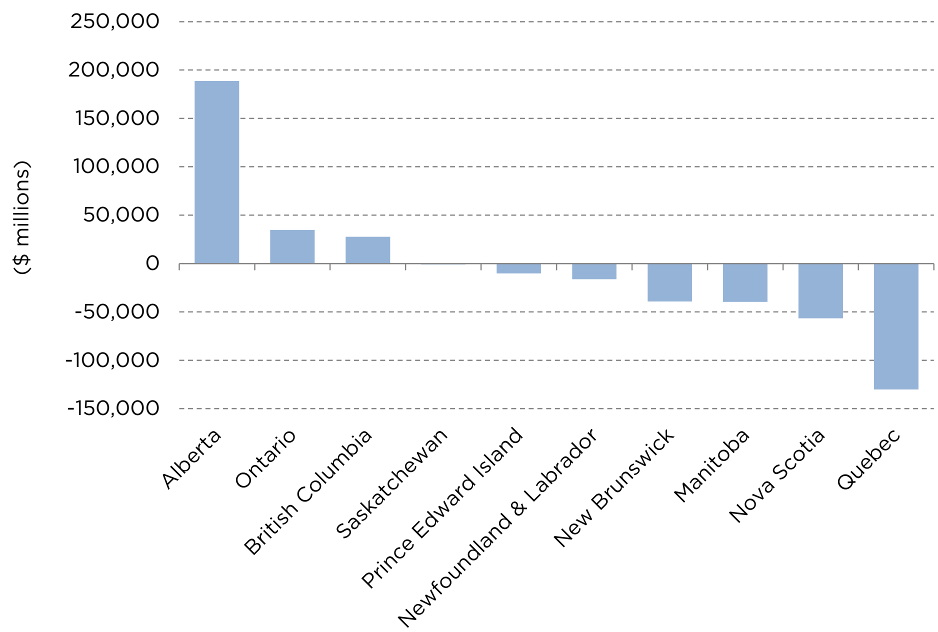
most years by far) the largest net contributor to federal finances.[6] In total, between 2007 and 2015, Albertans paid $188.6 billion more in federal taxes than they received in transfers and federal programs.[7] For context, that amounts to approximately $40,000 per Albertan from 2007 to 2015. In 2015 alone, Albertans' net fiscal contribution to the country's finances was $23.1 billion,[8] or more than $5,000 per person.

[6] The data rely on the definition of the term "federal general government" revenues and expenditures from Statistics Canada's table 384-0047. That table excludes CPP and QPP flows. Were we to include CPP and QPP payments, it would increase the size of Alberta's net contribution both because Alberta has fewer elderly people receiving such payments, and because there are more employed individuals paying payroll taxes than in the rest of Canada. Indeed, Albertans paid approximately $4.2 billion more into CPP last year than they received. The province's net contribution to the CPP program works out to approximately $1, 000 per person annually, compared to approximately $300 per person in Canada as a whe. In short, CPP/QPP payments are another area where Alberta contributes disproportionately to federal finances.

[7] If we were to include CPP/QPP payments, the aggregate gap would increase to $221.4 billion.

[8] Were we to include CPP/QPP payments, this annual contribution would increase to $27.3 billion.

Figure 11: Fiscal Balance Between Provincial and Federal Governments, 2007-2015



Note: Fiscal Balance is defined as the difference between federal total revenues collected by the provinces and federal spending (*including* debt charges).

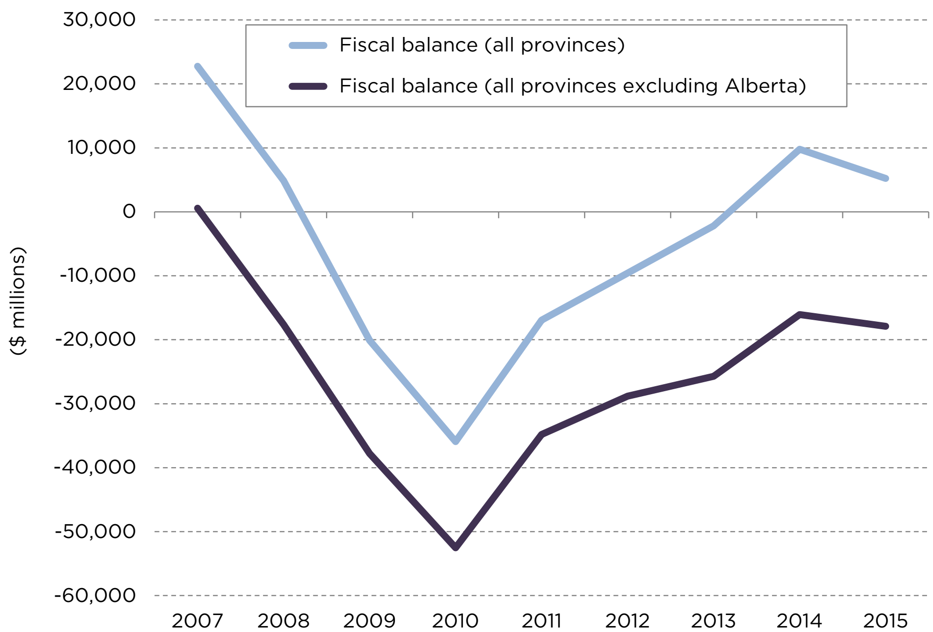
Sources: Statistics Canada, 2017f; calculation by authors.

Figure 11 illustrates an important point: only a small part of the gap between Alberta's contribution to federal revenues and federal expenditures is driven by the equalization program. Other factors that are also important contributors to Alberta's large net fiscal contribution to Confederation include a smaller elderly population (and therefore lower OAS inflows), and higher incomes (resulting in higher personal income and corporate income tax outflows).

It is instructive to consider what Canada's public finances would have looked like without Alberta's large contribution to Confederation. Figure 12 shows the combined fiscal balance for the remaining 9 provinces; it excludes Alberta's contribution in every year since 2007. Without Alberta's fiscal contribution, Canada's recent fiscal history would look very different.

Specifically, without Alberta's contribution, the federal government would have run a large budget deficit in every year shown. In each year except 2007, that deficit would have been much larger than it was, peaking at

Figure 12: Canada's Fiscal Balance (All Provinces and All Provinces Excluding Alberta) 2007-2015



Note: Fiscal Balance is defined as the difference between federal total revenues collected by the provinces and federal spending (*including* debt charges).

Sources: Statistics Canada, 2017f; calculation by authors.

over $50 billion in 2010.[9] Although much has been written about Canada's superior fiscal performance relative to the United States and other OECD countries in recent years, it is not widely appreciated the extent to which this strong performance is very dependent on the large fiscal contribution of one province of just 4.4 million residents, and that in turn, much of this strong performance was rooted in the energy sector and natural resource development.

Clearly, without Alberta's large net contribution to the country's fiscal balance, Canada's federal government would have to choose between

[9] These figures exclude the fiscal balances of the three territories, as well as revenues and expenditures from overseas sources, all of which are small net negatives. Including these would make the fiscal balance slightly worse in each year shown. This is one reason the numbers presented here differ from the government's officially reported deficit numbers for each year. Another is that these data measure revenue and expenditures in specific calendar years rather than fiscal years.

much larger budget deficits than we have in fact seen, steep spending reductions, large tax increases, or some combination of the three. In short, the relative strength in recent years of Canada's public finances compared to those of other affluent countries would have not been possible without a large net fiscal contribution from Alberta's taxpayers.

How Other Provinces and the Federal Government Can Help in Alberta's Hour of Need

To be clear, fiscal contributions among members in any federation is likely to have some imbalance as any federation will have regional economic differences tied to the business cycle, demography, and economic structure. Even in the absence of explicit regional transfer programs such as equalization, the way that federal programs are funded will imply some level of inter-regional transfers simply because the income, age, and employment status of provincial populations will vary. This is not necessarily problematic. A combination of higher per-capita incomes, a progressive income tax system, and the existence of programs that disproportionately direct funds to lower-income individuals and provinces naturally means that Albertans as a group will pay more than they get out.

However, what is problematic is that the scale of this fiscal phenomenon is not well understood, particularly by people outside of Alberta. Understanding the scale of Alberta's net fiscal contribution to Canada and the importance of Alberta's contribution to the stability of federal finances will perhaps help Canadians elsewhere recognize how important a strong Alberta is to a strong Canada, a reality with important public policy implications.

And Albertans, whose economic contribution to Canada in recent years has been so large, now stand in need of help. In recent years, the province has suffered one of the worst recessions in its history, enduring a contraction in its real GDP of 3.6% in 2015. Unemployment remains elevated, personal bankruptcies are up, and the province's vitally important energy sector continues to struggle. As Albertans cope with the difficult economic circumstances they face, policymakers in other parts of the country need to consider how they can best assist Alberta's economy.

The suggestions below for ways in which other jurisdictions can help Alberta should not distract from the fact that Alberta's core economic policy decisions must be made in Edmonton, not in other provincial or federal capitals across the country. Aside from the headwinds it faces from external factors outside its control, Alberta is suffering from a number of self-inflicted policy wounds which will hinder its recovery and undermine its competitiveness and growth prospects well after the recent recession ends. For example, the Alberta provincial government's current and future policy choices will primarily determine whether the province halts the rapid run-up in provincial debt now occurring, or whether that debt will be allowed to continue to grow quickly. Similarly, its provincial tax policy decisions will largely determine whether Alberta's tax advantage will continue to erode or whether it or whether it will be bolstered by tax reform.

While it is clear that Alberta must help itself, decisions made by other actors will also matter. Given the extent of Alberta's contribution to Canada's economic growth, it would be in the self-interest of other governments across the country not to pursue policy choices that will limit Alberta's growth prospects. The federal and especially other provincial governments need to ensure they aren't taking actions that will actively constrain Alberta's prosperity. In short, while it is ultimately up to Alberta to help itself, other jurisdictions can assist by, at the very least, not taking actions that will make this process even harder than it otherwise would be. Specifically, they can work to remove or lower three key barriers currently facing Alberta: those flowing from pipeline obstructionism, the effect of federal tax increases, and the redistributive effects of federal transfers.

Facilitate energy exports

Alberta is a landlocked province bordering the United States, and effectively has a single export customer for its most important resource. However, with the American energy sector becoming increasingly competitive, it is crucial that Alberta find ways to diversify its trade and ensure the viability of its energy sector. This will happen if the province's energy resources reach tidewater so they can be exported to energy thirsty countries such as China. Presently, Alberta sells its oil at a significant discount relative to oil from other parts of the world,[10] partly because its producers lack access to the global market and are forced to rely almost exclusively on the American market. Providing coastal access would allow Alberta oil to reach other markets, potentially reducing the price discount.

Unfortunately, needed pipeline infrastructure has been met with skepticism or outright opposition from various groups outside of Alberta.

[10] Western Canadian Select (WCS) oil, the benchmark for Canada's heavy crude oil, traded at a discount of $13.50 per barrel (32 percent) relative to West Texas Intermediate (WTI) oil, America's primary oil benchmark (Alberta Energy Regulator, 2017). While different types of crude oil inevitably trade at different prices, the WTI-WCS price discount is a widely used metric that varies significantly based on market conditions, showing that the price differential is not entirely due to differing product quality.

A key example of this is in British Columbia, where the Trans Mountain pipeline expansion has met with strong political opposition.[11] Similarly, many politicians, including premiers and mayors, have signaled potential opposition to the proposed Energy East pipeline, which would carry oil from Alberta to New Brunswick. Activists in several jurisdictions have promised to apply pressure to the federal government to overturn its decisions to construct oil pipelines that it has ruled are environmentally safe. Provincial governments in neighbouring jurisdictions can be a good friend to Alberta during this difficult period in its economic life by not encouraging activism of this kind. Of greater importance, the federal government (which will ultimately make the final decisions about pipeline construction projects) can help Alberta by demonstrating its resolve to proceed with projects that it has determined are safe and not bow to pressure from activist groups who appear determined to erect obstacles to nearly any type of traditional energy infrastructure.

As the data above have demonstrated, a competitive Alberta economy is in the interest of the entire country. While energy companies and governments must do their due diligence to ensure that proposed pipelines are environmentally compliant and safe,[12] it is also crucial that those pipelines be built to ensure that energy companies can continue to contribute to healthy economic growth and increased public revenue, not just in Alberta, but in the rest of Canada too.

Don't further undermine Alberta's tax competitiveness

Up until 2015, Alberta was a uniquely low-tax jurisdiction in North America. Its combined top personal income tax (PIT) rate was the lowest of any Canadian province or US state, as was its general corporate income tax rate.[13]

Since then, however, tax hikes at both the provincial and federal levels have had the combined effect of substantially undermining Alberta's

[11] The British Columbia provincial government did approve the project this year (Mordant, 2017), though it isn't clear how the recent provincial election will affect the project. The leader of the Green Party, which is planning to participate in a coalition government with the NDP, may seek to block the project (Weaver, 2017). The project also faces opposition from several municipal governments and first nations (Bailey, 2017).

[12] Green and Taylor (2015) found that the primary alternative to pipelines—rail transportation—is 4.5 times more likely to result in oil spills than pipelines.

[13] For a more detailed discussion of Alberta's former tax advantage, see Eisen, Lafleur, and Palacios (2017).

tax advantage in these areas. To be clear, its own tax policy decisions have played the bigger role in undermining Alberta's tax competitiveness, however, federal policy choices have exacerbated the problem. Yet more federal tax increases beyond those that have already been implemented would further erode Alberta's tax competitiveness relative to American jurisdictions and other competitors around the world.

Federal PIT increases have played an important role in undermining Alberta's tax competitiveness. As noted, just two years ago, Alberta had the lowest top personal income tax rate in North America. This helped the province attract both talent and investment. Alberta's own PIT increase has contributed to the erosion of the province's tax advantage in this area, but the federal increase has made Alberta's slide in competitiveness much worse. Had the top federal rate remained unchanged, Alberta's top statutory income tax rate would have slid from lowest to 13th lowest among the 10 provinces, 50 states, and District of Columbia—even with the provincial tax hikes taken into account. But with the 4 percentage point increase to the top federal rate, Alberta's combined top rate has plunged from lowest to a tie for 45th lowest, and will fall to 46th lowest after Saskatchewan's personal income tax cut takes effect (Eisen, Lafleur, Palacios, 2017).

This cumulative nine-point increase in the province's top personal income tax rate is especially damaging given that many of the energy producing states that Alberta competes with for investment have no or very low state-level income taxes. While their combined top personal income tax rates used to be higher than Alberta's, Louisiana, Oklahoma, Colorado, North Dakota, Alaska, Texas, and Wyoming now all have lower statutory rates than Alberta (Eisen, Lafleur, Palacios, 2017). And federal deficits for the foreseeable future could make Canada generally (including Alberta) a less attractive destination for future investment owing to concern about the prospect of future tax increases to service an elevated debt.[14] For instance, recently there was speculation that the federal government might raise the inclusion rate on capital gains. While that measure wasn't included in the most recent budget, neither was it ruled out (Canadian Press, 2017). Such tax increases could be particularly problematic if the federal government in the United States decides to cut corporate and capital gains taxes. (We should note that the federal Liberal government did not just

[14] Public debt is another area where Alberta's own provincial policy choices matter more than what is done elsewhere. The province is now adding much more debt (per capita and relative to GDP) each year than is the federal government. Nevertheless, ultimately Albertan taxpayers will be responsible for servicing both provincial debt and a disproportionate share of federal debt (because of their greater average contribution to federal revenues), and so federal debt growth during this period of rapid provincial debt accumulation could exacerbate the negative effects of the latter trend.

raise the top personal income tax bracket; it also reduced a middle tax bracket from 22 to 20.5 percent.)

This tax shift likely caused economic damage in all provinces—increasing top marginal tax rates is an economically inefficient way to increase revenue and increasing these taxes has implications for productivity, GDP growth, and the ability of jurisdictions to attract skilled migrants.[15] However, the shift was particularly disadvantageous for Alberta because the province has many high-income earners and has to compete aggressively for top talent in the competitive oil and gas sector. In fact, the new tax bracket on incomes above $200,000 raises approximately $210 per capita in Alberta, about double the national average. With its tax changes, the Liberal government increased Alberta's fiscal gap relative to the rest of the country.

It is important to restate that it is not just federal tax policy that has undermined Alberta's tax advantage in recent years. Alberta's own provincial tax increases have had a similar effect. While it is true that Alberta still collects less revenue overall than do other provinces (primarily because it has no sales tax), it has lost its tax advantage in key areas, specifically the personal and corporate income tax, partly due to recent provincial increases. This is worrying for Alberta's prospects for a strong, sustained recovery because personal and corporate income tax increases are a particularly inefficient way to grow revenue.[16]

However, the fact that Alberta is undermining its own tax competitiveness with its own policy choices does not change the fact that federal tax policy changes are compounding the damage. Alberta is the biggest net per capita revenue contributor to the federal government. Tax increases that undermine Alberta's economic growth therefore undermine the biggest per capita driver of federal tax revenue in the country.

[15] For an overview of how tax rates affect migration, see Canada, Department of Finance, 2010.

[16] Not all sales taxes are equally efficient. Ideal sales taxes are pure consumption taxes, and therefore exempt business inputs. However, as Chen and Mintz (2015) have noted, many provinces have inefficient retail sales taxes that apply at least in part to business inputs and therefore increase the marginal effective tax rate in those provinces, harming their economic competitiveness. Better designed sales taxes, such as the harmonized sales taxes adopted in Ontario and the Atlantic provinces, are less distortionary.

Federal transfer reform

As noted, federal transfers to the provinces are one (though certainly not the only) mechanism through which taxpayers in Alberta send money to other parts of the country. As also noted, Alberta's taxpayers pay a far greater share of money to the general revenues than they receive from federal transfers.

This paper has also pointed out that there is nothing inherently problematic about some redistribution taking place through Canada's system of federal transfers. The goal of equalizing the quality of public services, the fact that incomes vary between the provinces, and the existence of a progressive system of taxation, all mean that more affluent provinces like Alberta will pay in more than they get out. This is not, in and of itself, a problem.

However, there are a number of reasons why current features of the federal transfer system, and particularly equalization, may be damaging and even unfair to Alberta at this time. It is beyond the scope of this paper to discuss each of these in detail. Instead, we will quickly note two issues that are worthy of attention and further inquiry at this particular moment.

- *The transfer system is a multi-year process and lags in data collection for determining fiscal capacity are disadvantageous to Alberta and other "have" provinces during an energy downturn.* The equalization system is complicated, but one feature that is especially problematic at this time is that it measures provincial fiscal capacity using a three-year average, which itself only begins after a two-year lag. The problem for jurisdictions like Alberta, for which a major source of revenue (in its case, resource revenue) is volatile, is that commodity price downturns can take a long time to substantially affect fiscal capacity estimates. The result is that for a given year, the fiscal capacity of jurisdictions such as Alberta (as well as Saskatchewan and Newfoundland & Labrador) may be significantly overstated relative to the government's ability to raise money that year. Consider that the calculation for measuring Alberta's fiscal capacity for 2016/17 included data from 2013/14 –a year when energy prices were more than twice as high. As a result, the 10-province average to which have-not provinces must be equalized may be higher than it would be if actual current fiscal capacity were measured. The approach presently used offers a number of advantages, not least of which is predictability for both the federal government and recipient provinces; however, it may be disadvantageous for the program's net contributors, particularly in the years immediately following a substantial energy price downturn.

- *The equalization growth cap may soon become a driver of payments rather than a cap.* In 2009, the federal government introduced a new rule fixing the growth rate for the overall equalization envelope (the total amount to be paid out). This was done largely in response to Ontario becoming a have-not province and resulting fears about the affordability of the equalization program and predictability for Ottawa. By fixing the growth rate of the equalization envelope, the federal government was able to assure itself that costs would not quickly increase. In recent years, however, the fiscal capacity gap between more and less affluent provinces has narrowed to the point that adhering to the fixed growth rate now prescribed by law could soon lead to a *larger* equalization envelope than would be necessary to equalize the have-not provinces to the legal standard as it would exist in the absence of the fixed growth rate rule.

  The government has not yet explained how this will be rectified, but distributing the additional revenue to have-not provinces would clearly be unfair. At least one analyst has suggested that any additional revenue beyond what is necessary for bringing have-not provinces to the prescribed fiscal capacity be returned to the provinces on a per-capita basis (Feehan, 2014). Other options include returning surplus money to the provinces relative to their contribution to federal revenues, or simply not spending the money at all, and using the savings to reduce the budget deficit.

A lot has been written about bigger problems with federal transfers more generally, and equalization more specifically. It is beyond the scope of this paper to review those objections to the program or evaluate them. This paper simply notes two potential problems that may have emerged in recent years specifically as a result of the sudden and dramatic downturn in energy prices. With the current five-year equalization period set to expire in 2019, there may be an opportunity to renegotiate the terms of the program to address these and other issues that may be particularly disadvantageous to Alberta. The need to do so will be particularly urgent if oil prices remain low and/or if Alberta and other energy producing "have" provinces experience weak economic growth in the years ahead.

Given Alberta's very large net contribution to transfers generally, and to the revenue that funds equalization, these issues deserve careful and immediate attention to ensure that the largest net contributor to Confederation is not being unduly burdened by any of the current rules.

Conclusion

This report shows that Alberta has contributed disproportionately to the economic prosperity and fiscal health of Canada, particularly during the energy boom between 2004 and 2014. Ensuring that Alberta once again becomes an engine of growth is crucial not just to Albertans, but to Canadians outside of Alberta, as they benefit from Alberta's disproportionate contribution to federal revenue. This contribution funds transfers to other provinces as well as direct federal spending. Moreover, Alberta provides jobs for Canadians seeking better opportunities.

Unfortunately, the pain caused by reduced commodity prices and provincial-level tax increases has been compounded by opposition to Alberta's energy exports and by federal tax increases. While the federal government has approved new pipeline capacity, those pipelines actually need to be built to help Alberta get its oil to market. Ensuring a smooth implementation process will require resolve from the federal government, and would be aided by provincial governments helping federal regulators do their job. Federal tax increases, meantime, have compounded misguided provincial tax increases, drastically reducing Alberta's competitiveness with key energy producing states. The federal government must be cautious about the impact of federal tax policy on provincial prosperity in the future, particularly if it wants to continue to take advantage of Alberta's disproportionate economic and fiscal contributions.

Alberta is currently suffering economically. Although policy choices made in Edmonton will be critically important in determining the province's future economic and fiscal health, other governments across Canada are also making policy choices that will inevitably make it harder or easier for Alberta to help itself. The rest of Canada would be wise to think of Alberta as a "friend in need." That doesn't mean that Alberta needs a handout. It simply means that other governments should remember how essential a strong Alberta is to a strong Canada, and avoid policy choices that will constrain Alberta's economic growth prospects in the years ahead.

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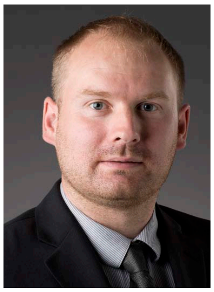

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