



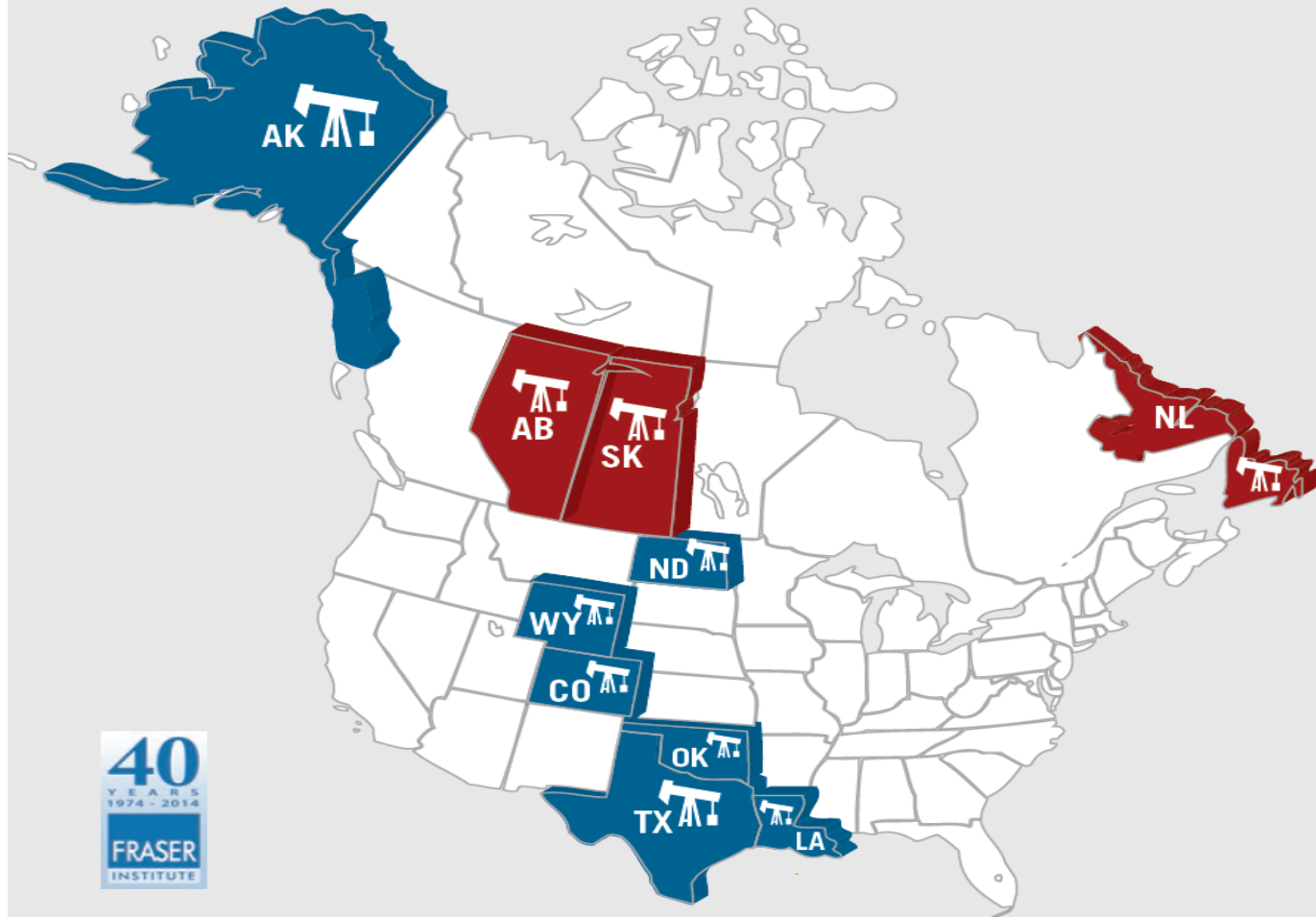
Comparing Alberta's Economic and Fiscal Performance with Other North American Energy Jurisdictions

Livio Di Matteo, Fraser Institute Student Seminar, Calgary, Alberta, January 17, 2015

An Economic and Fiscal Comparison of Alberta and Other North American Energy Producing Provinces and States

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Economic Performance

- Compares selected resource intensive provinces and states with respect to growth in income, employment, and productivity levels to gauge their relative economic performance over the last decade.

Fiscal Performance

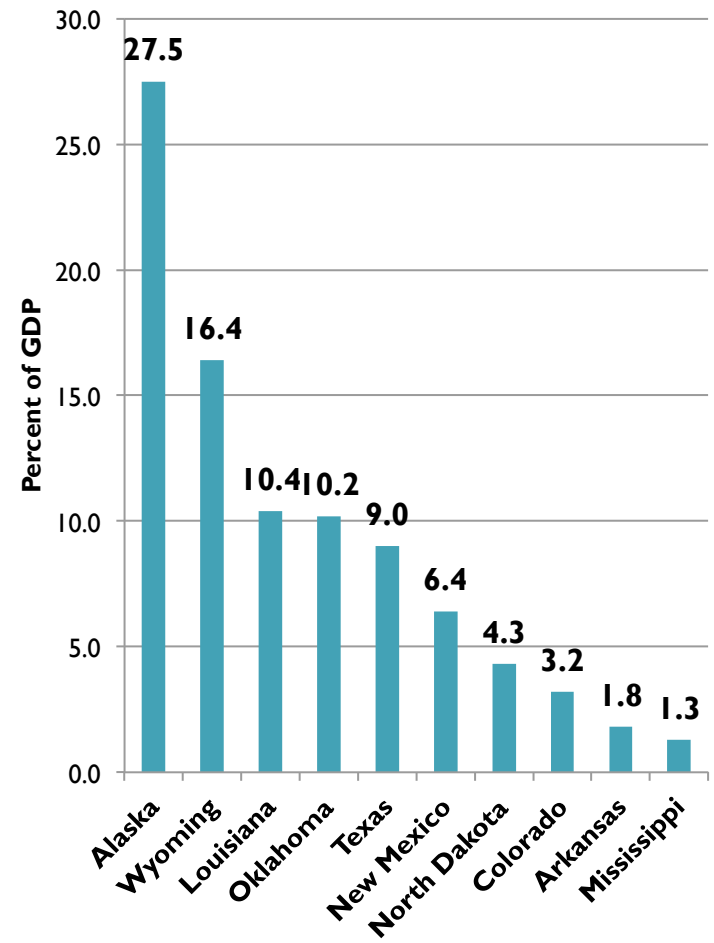
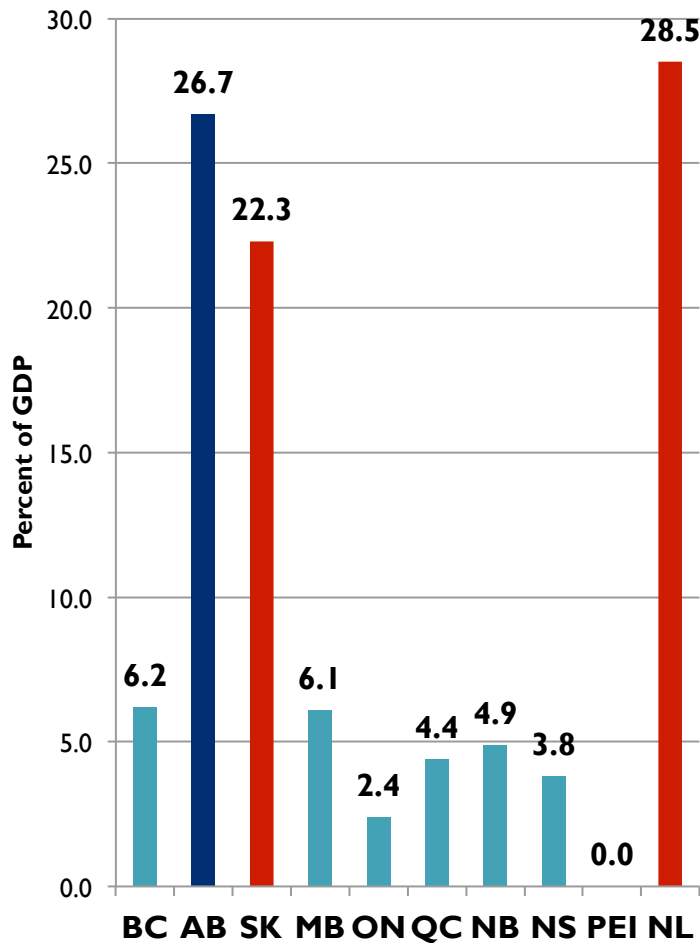
- Compares selected resource intensive provinces and states with respect to deficits, public debt, tax mix and investment in sovereign wealth funds.

How well does Alberta performs economically and with respect to public finances when compared to other resource-based economies in North America?

Selecting the Jurisdictions

- The method employed in this paper to select provinces and states for analysis is the share of a province's economy (GDP) represented by the energy sector and the share of a state's economy (GDP) represented by the oil and gas sector.

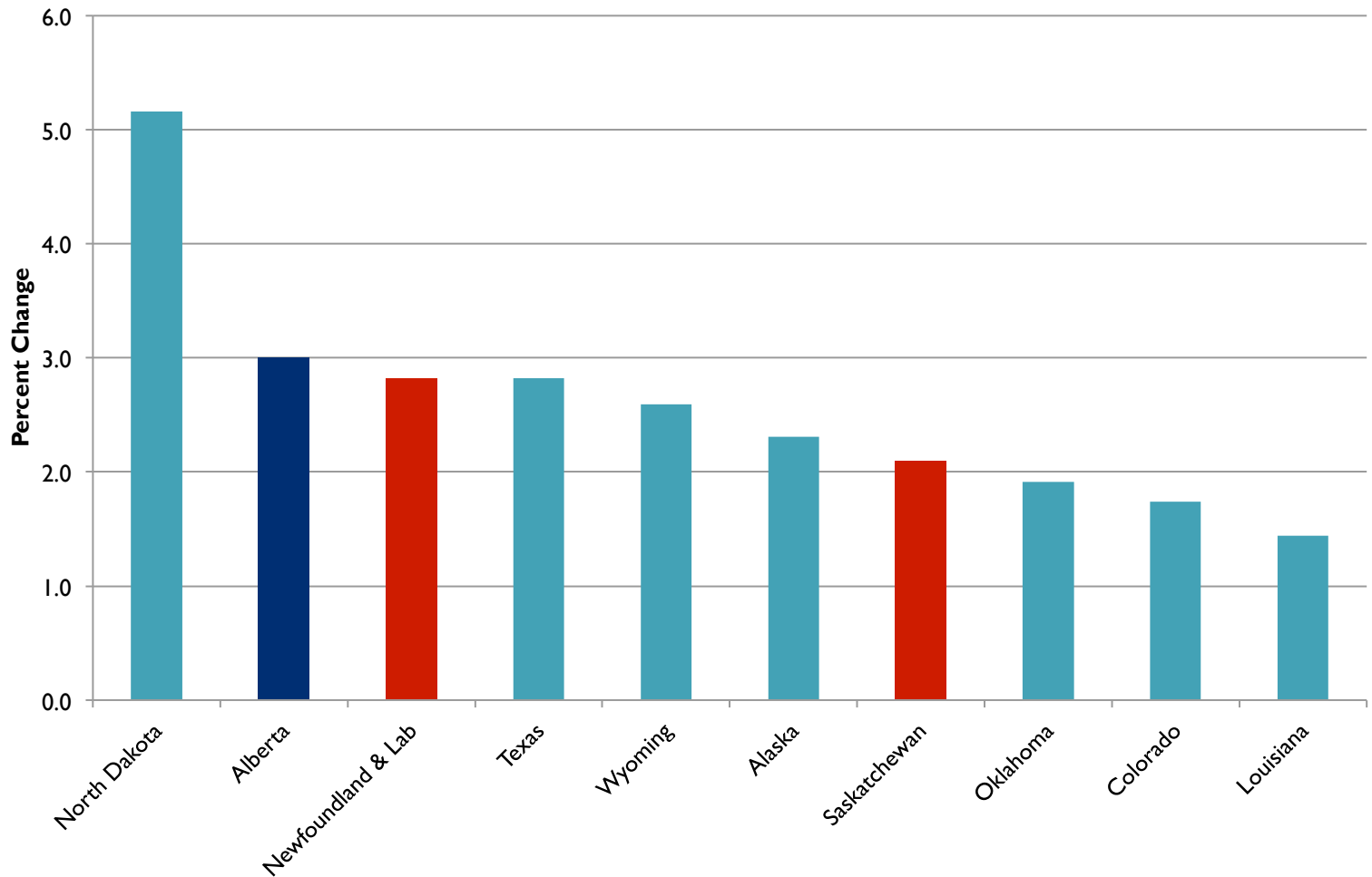
Importance of Energy & Oil and Gas Sectors (2012 Canada, 2011 USA)



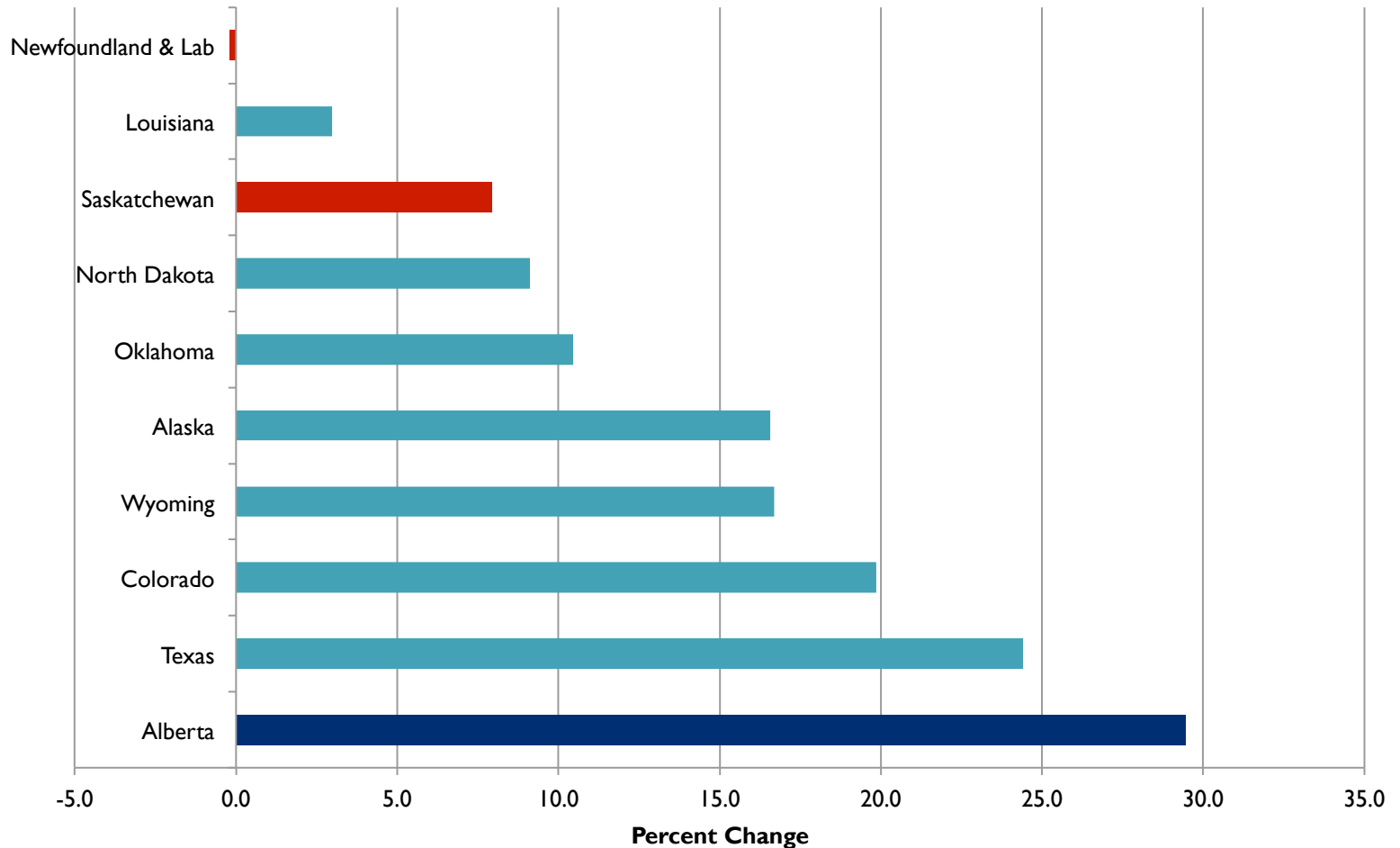


ECONOMIC PERFORMANCE

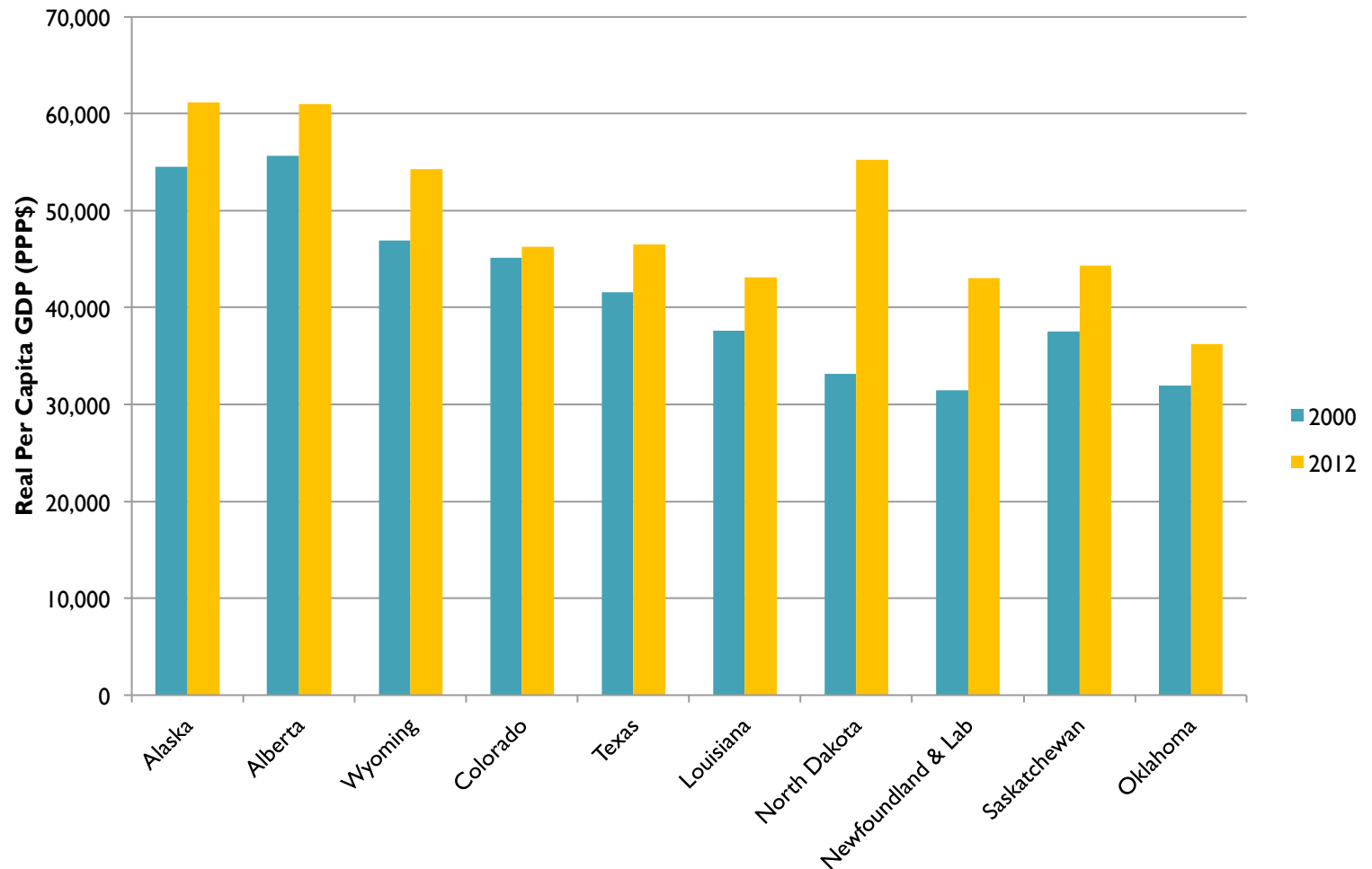
Average Annual Real GDP Growth (%), 2001-2012



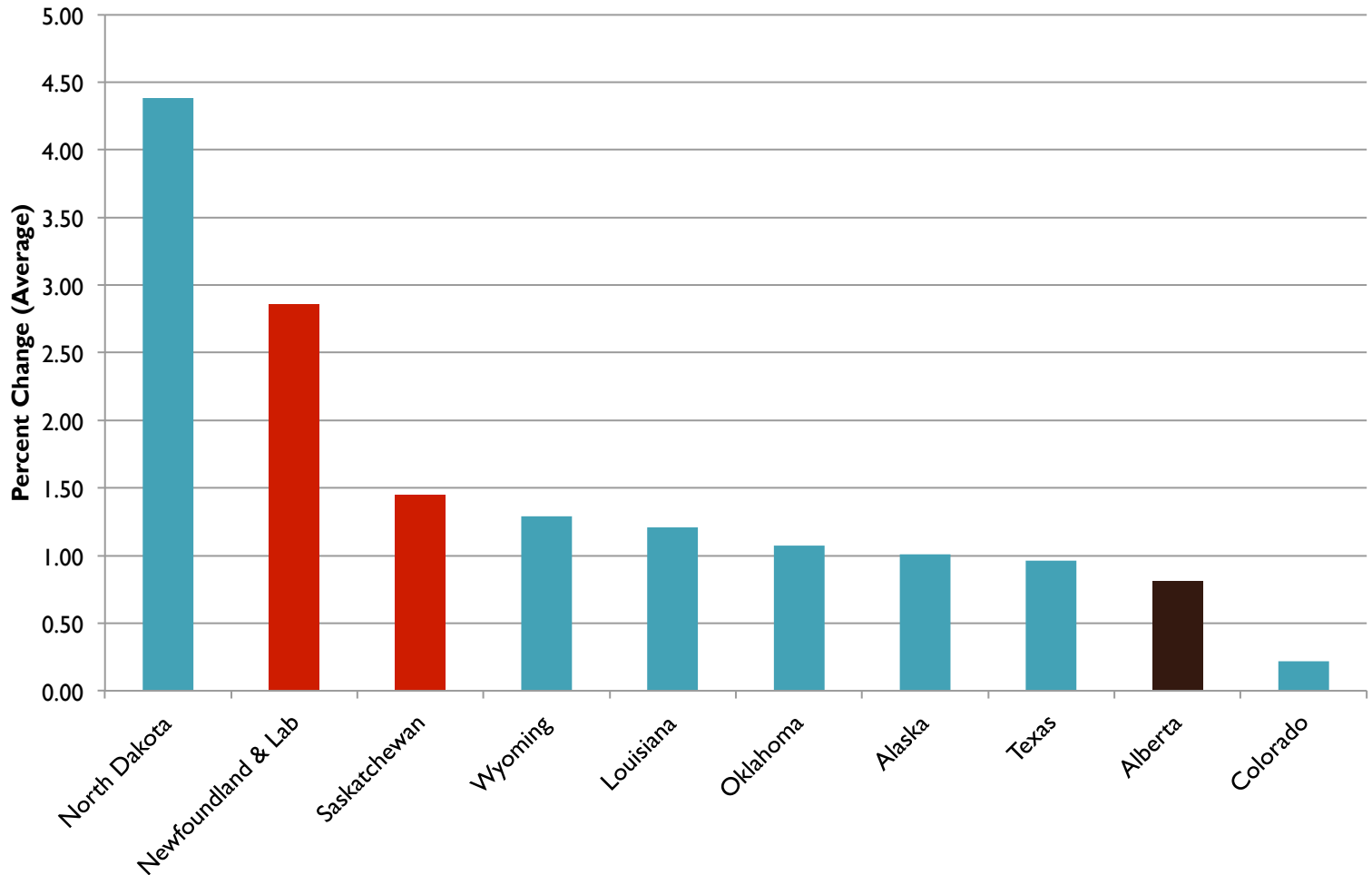
Population Growth, Percent Change 2001 to 2012



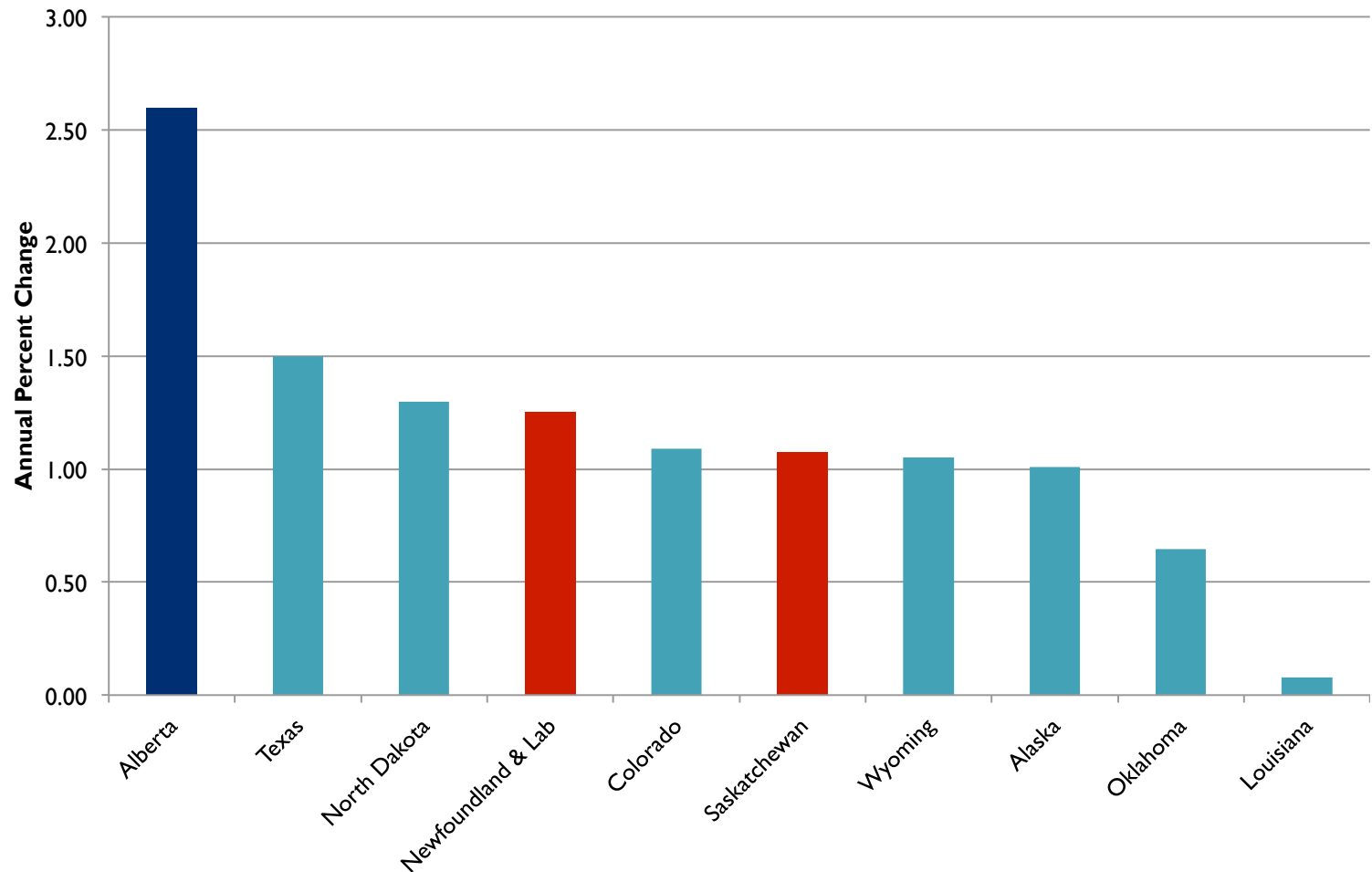
Real Per Capita GDP (US PPP\$)



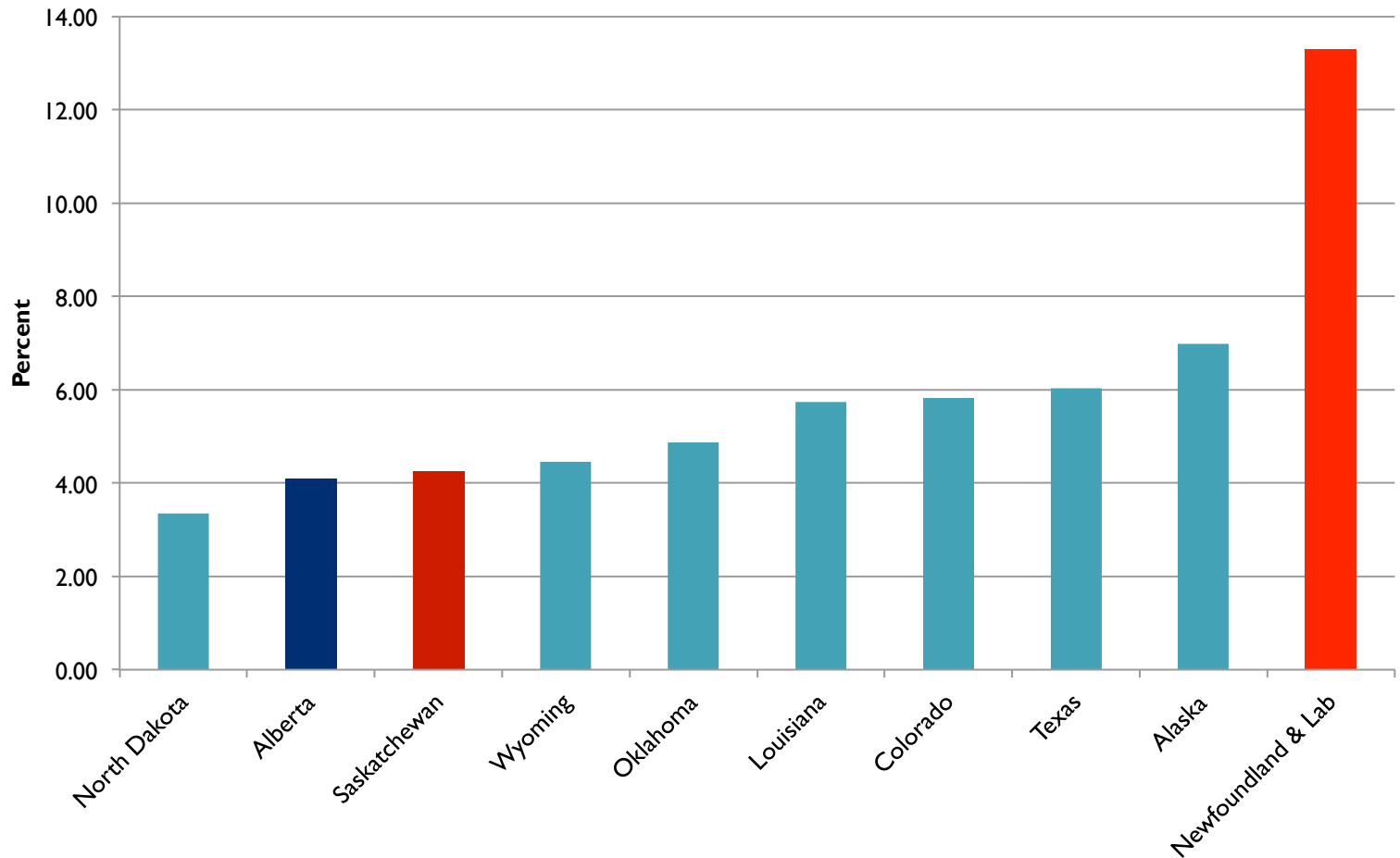
Average Annual Per Capita Real GDP Growth (%), 2001-2012



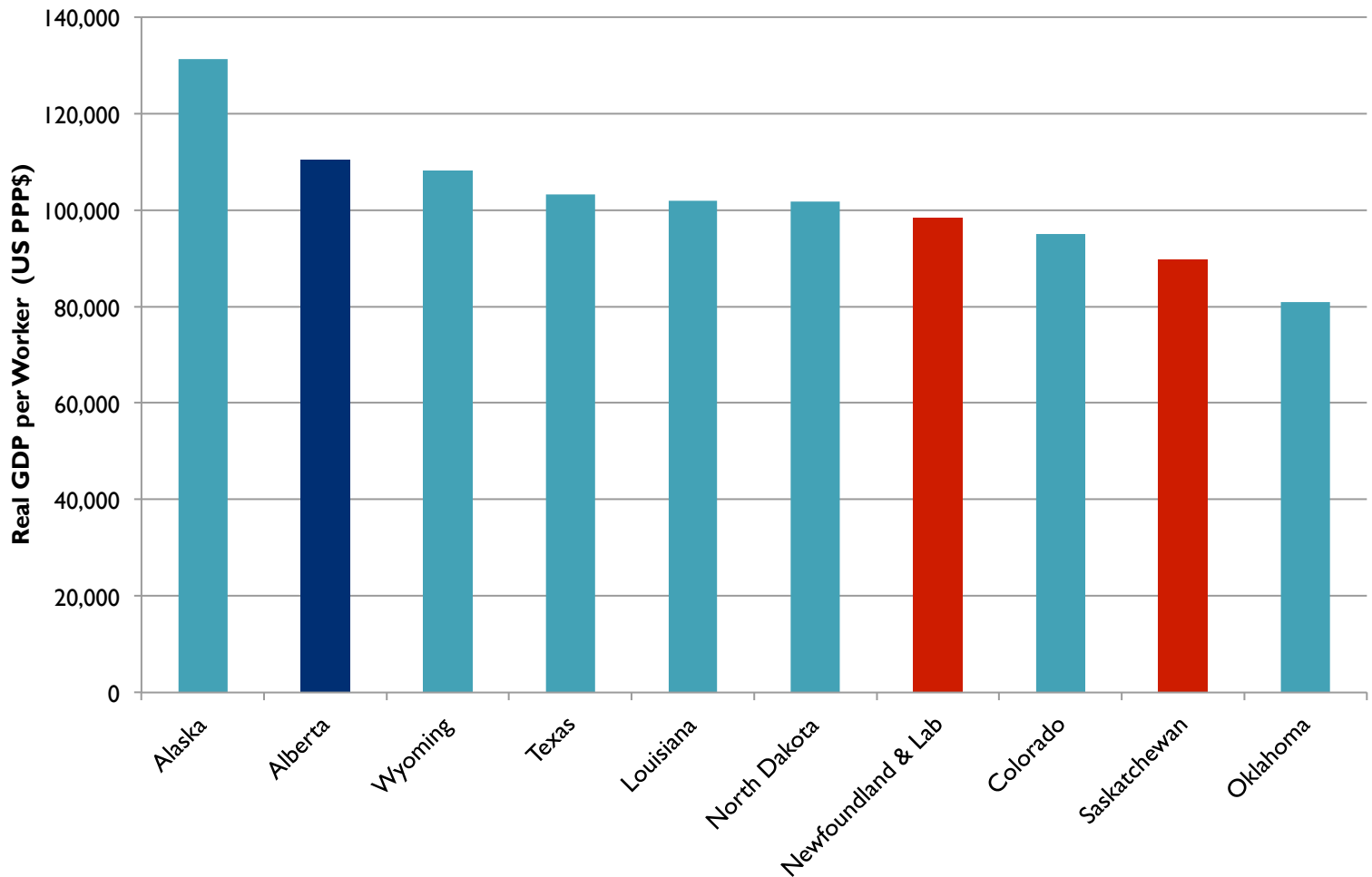
Average Annual Rate of Total Employment Growth(%), 2001-2012



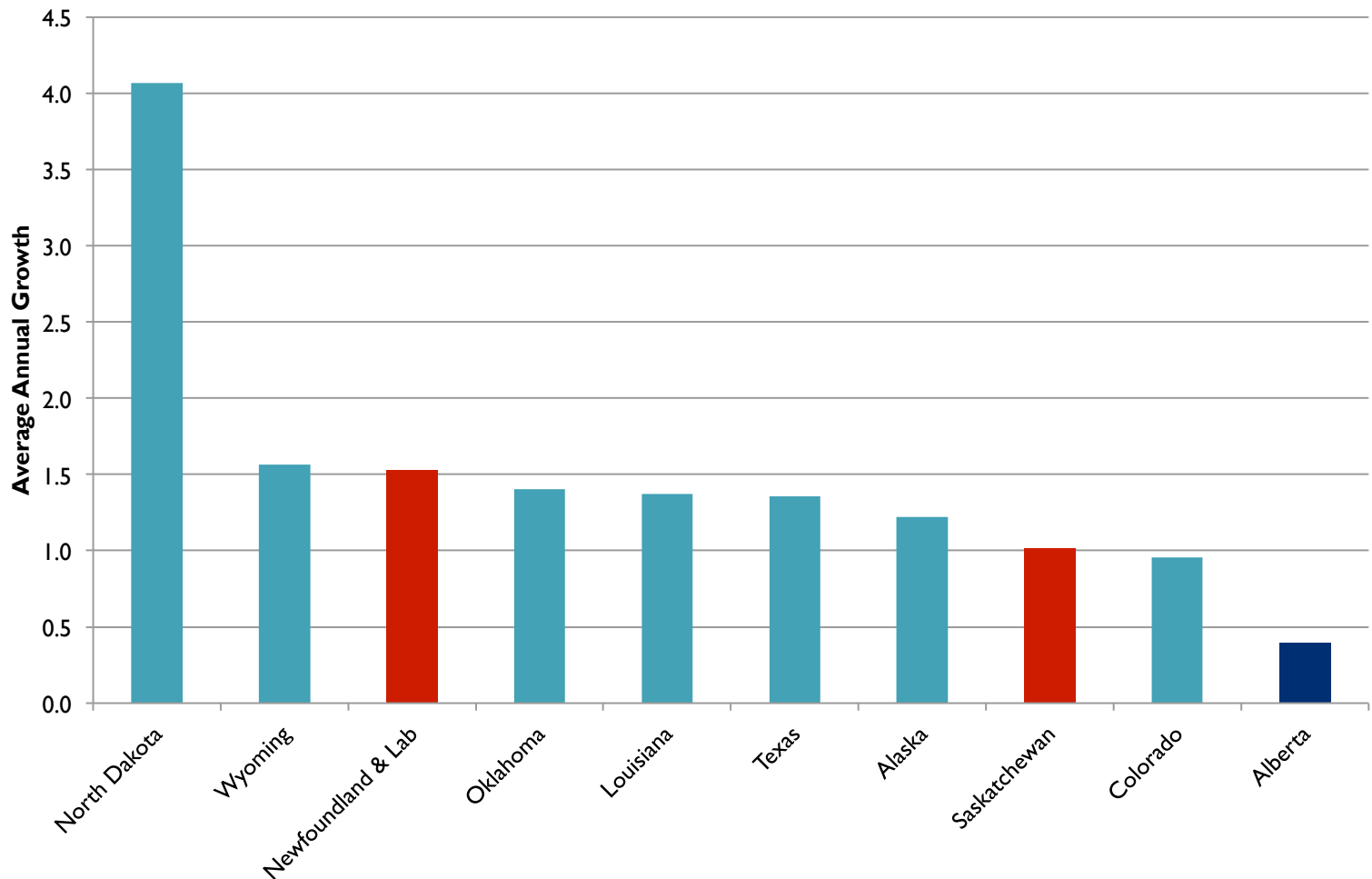
Average Annual Unemployment Rate (%), 2000-2012



Productivity: Real GDP Per Worker in 2012 (US PPP\$)



Productivity Growth: Average Annual Growth in Real GDP per Worker, 2001-2012



Economic Performance: Assessment

- Overall, Alberta's economy performed relatively well over the last decade when compared with other energy-producing provinces and states although there are areas of concern.

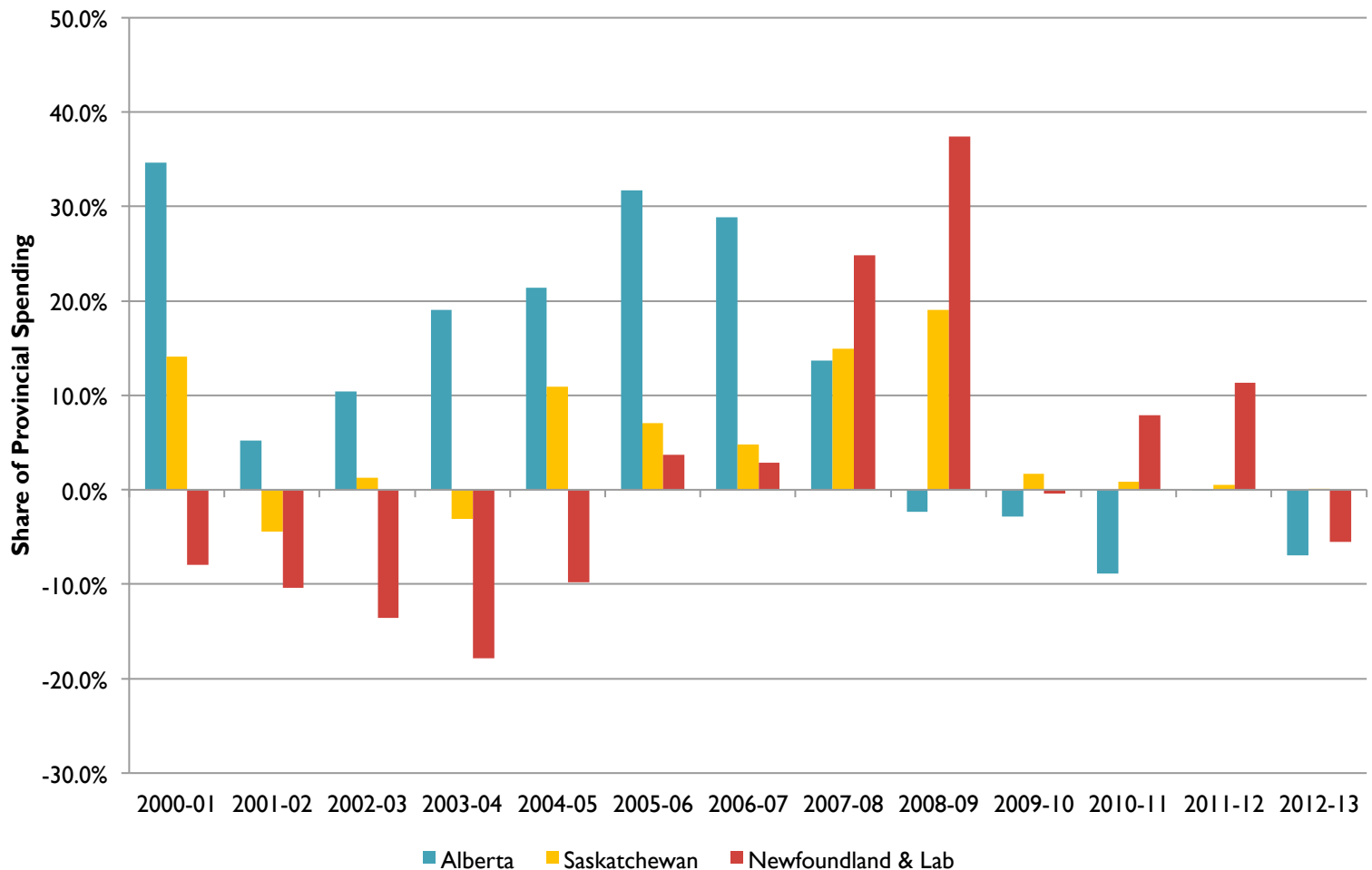
Productivity Concern

- Over the 2001-2012 period, Alberta ranked last with respect to its average growth rate in real per worker GDP.
- Simply put, Alberta's growth in per worker GDP (as a measure of productivity) and average growth in per capita GDP indicate that much of the province's economic growth is coming from expanding inputs like labor rather than improving the productivity (and thus income) of individual workers.

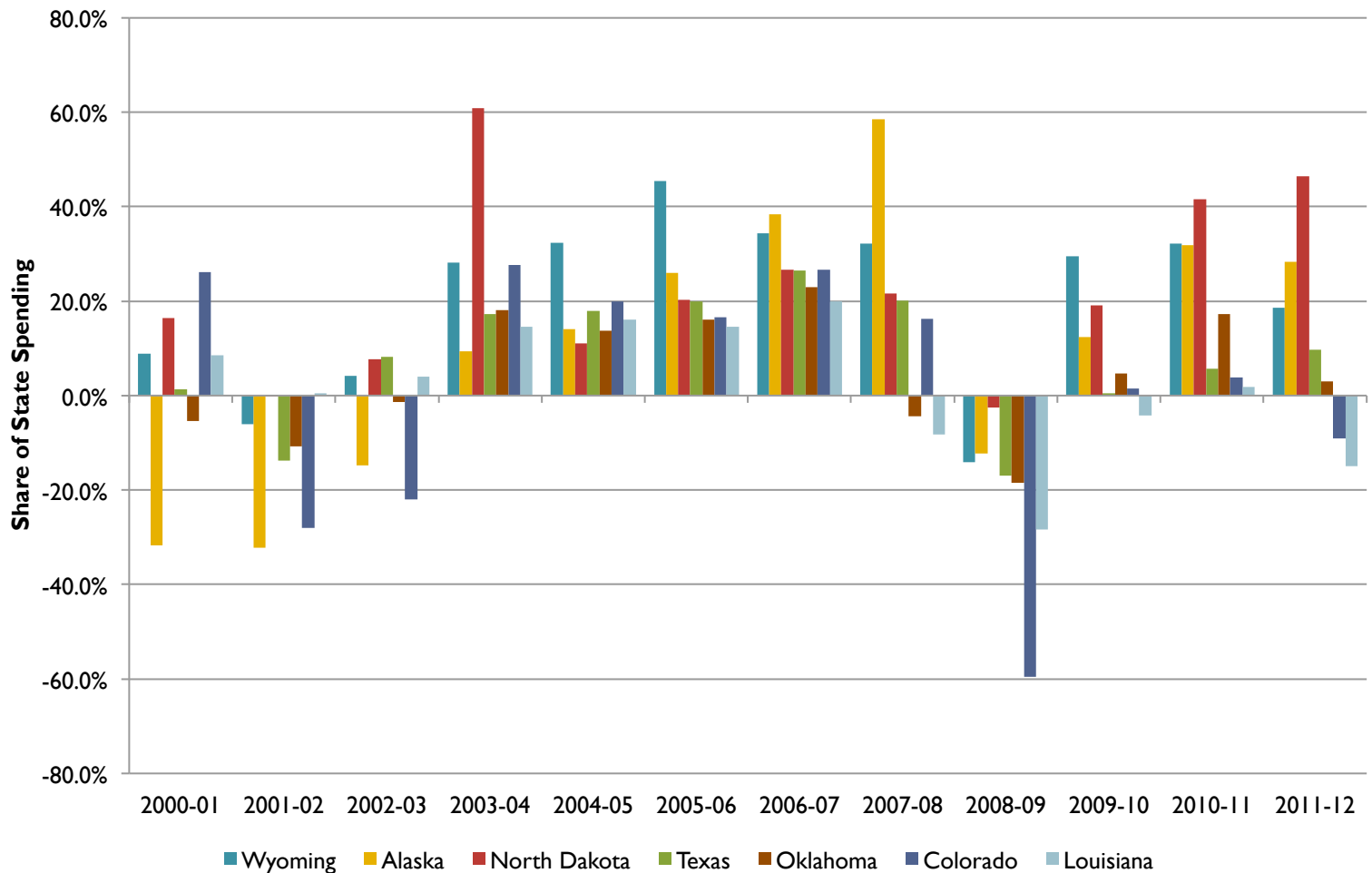


FISCAL PERFORMANCE

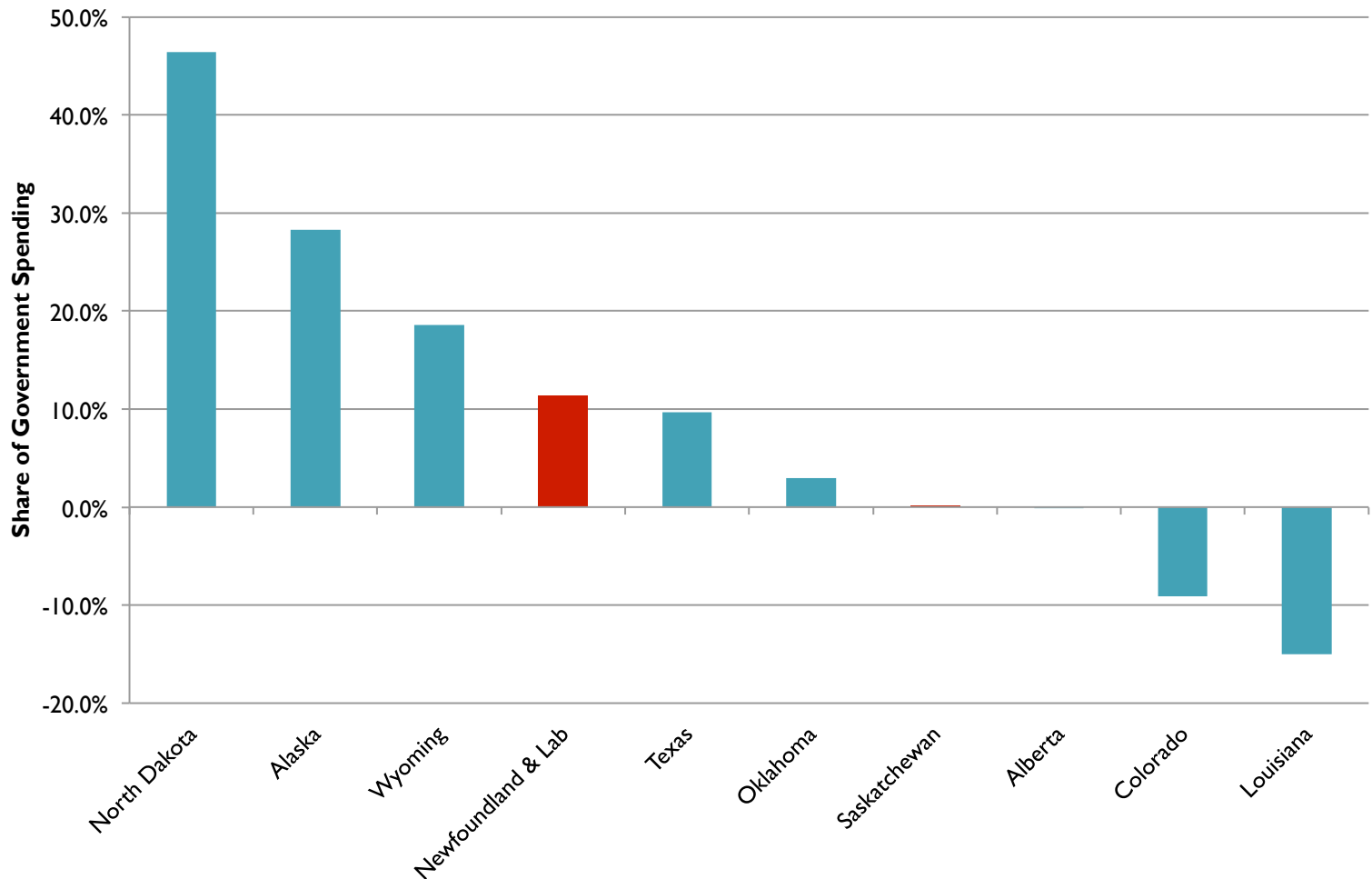
Provincial Surplus/Deficit as a Share of Total Government Spending



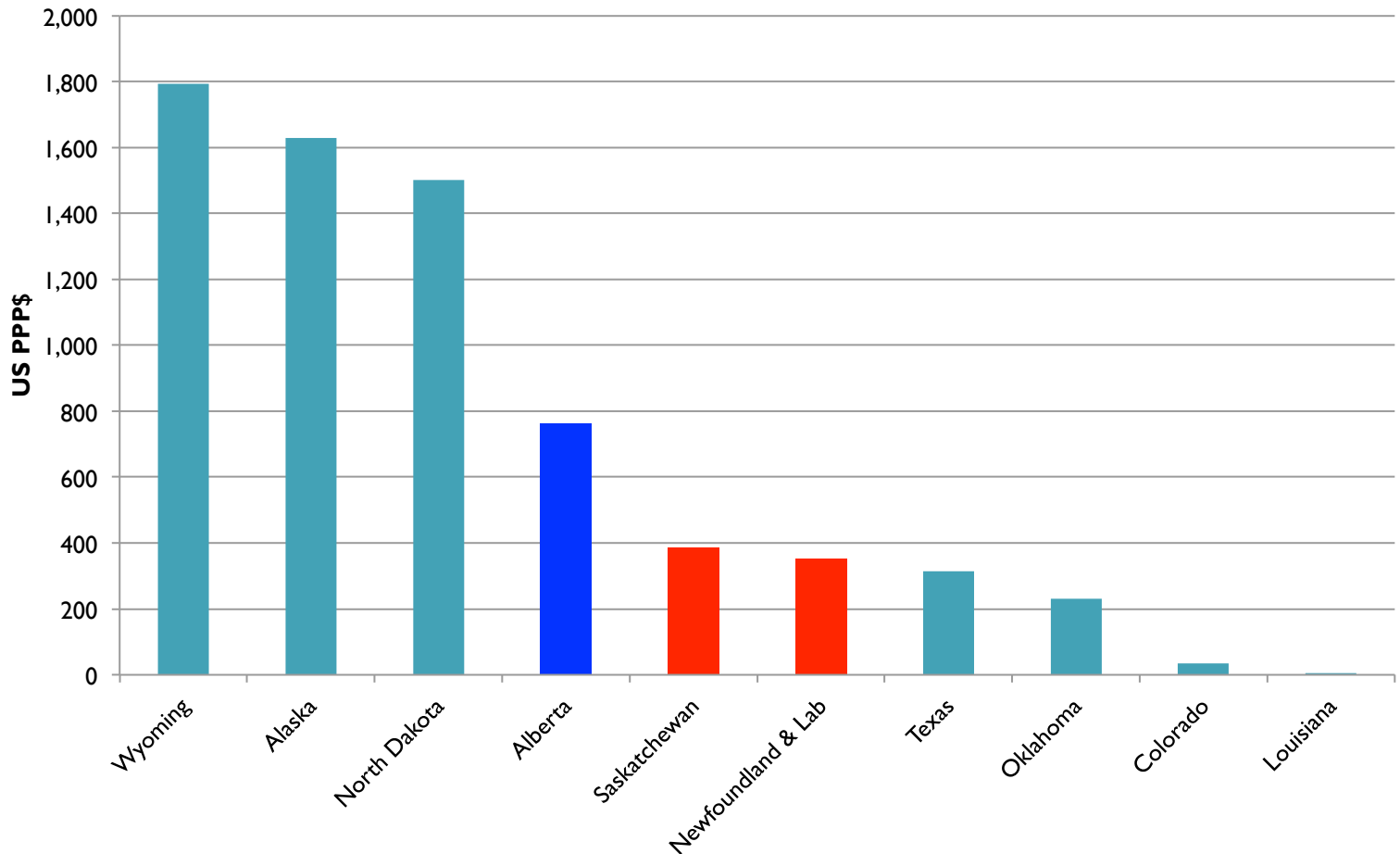
State Surplus/Deficit as a Share of Total Government Spending



Provincial and State Deficit/Surplus as a Share of Government Spending, 2011-12

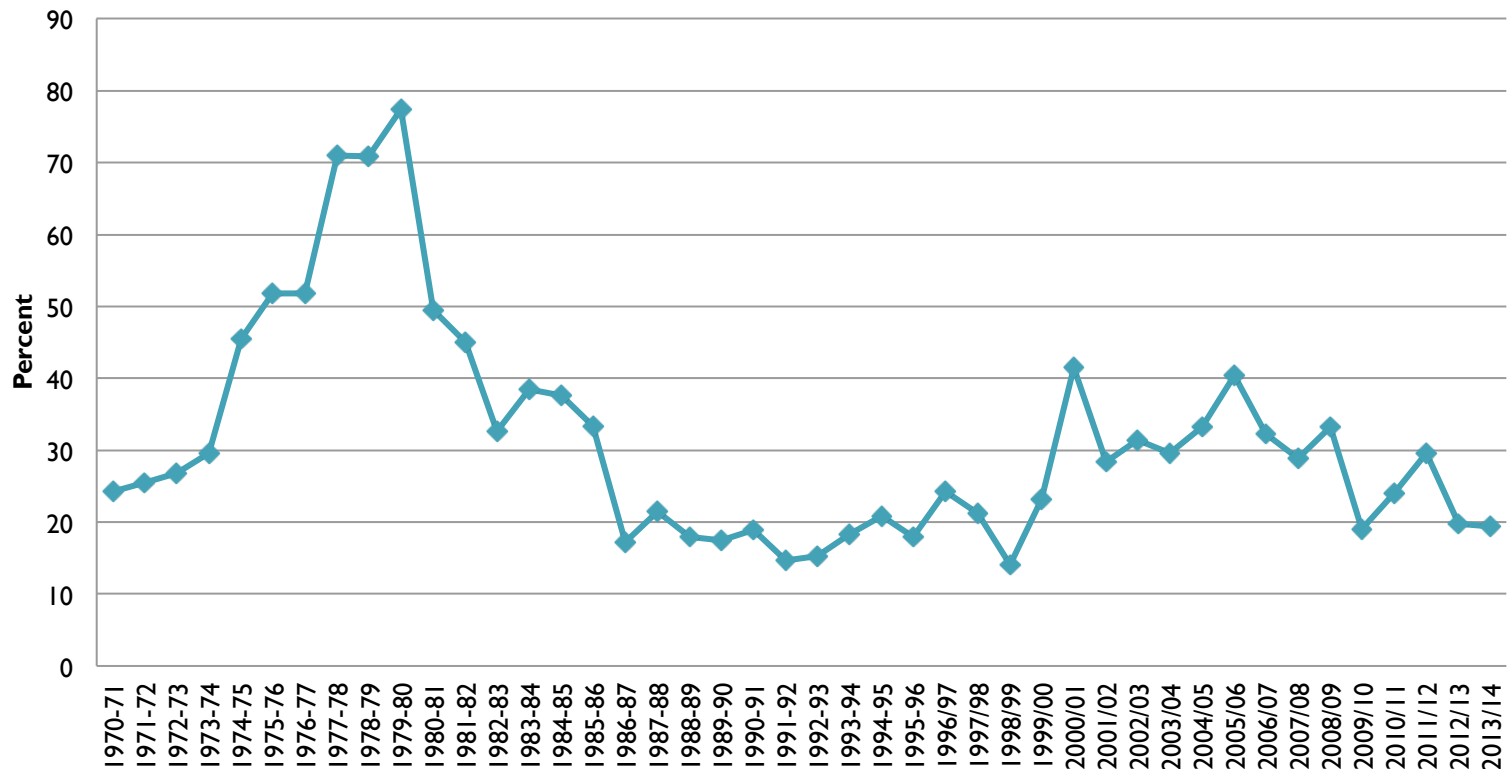


Average Annual Per Capita Surplus/ Deficit 2000-2011 (US PPP\$)

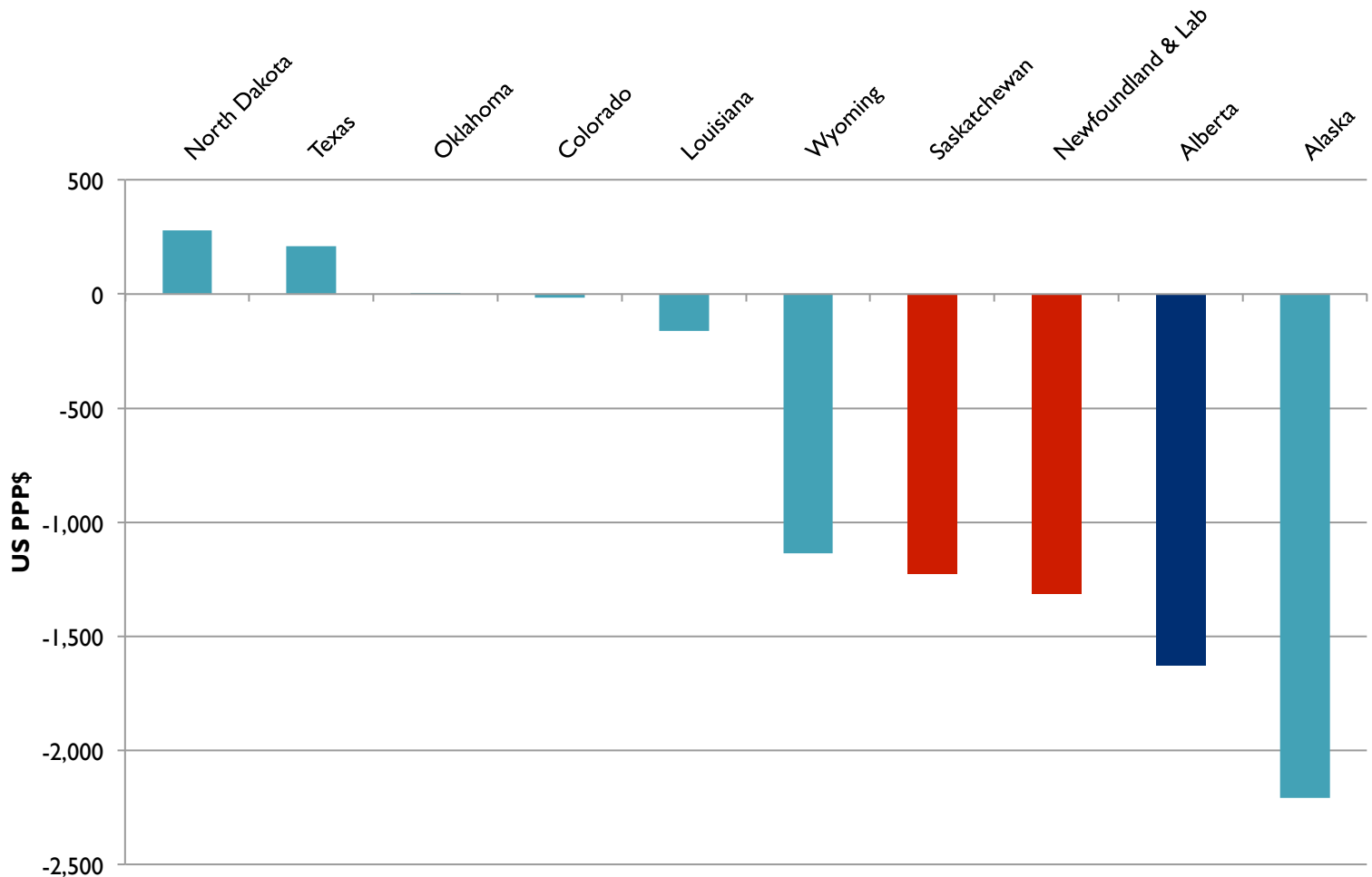


Resource Revenues Important to Fiscal Position

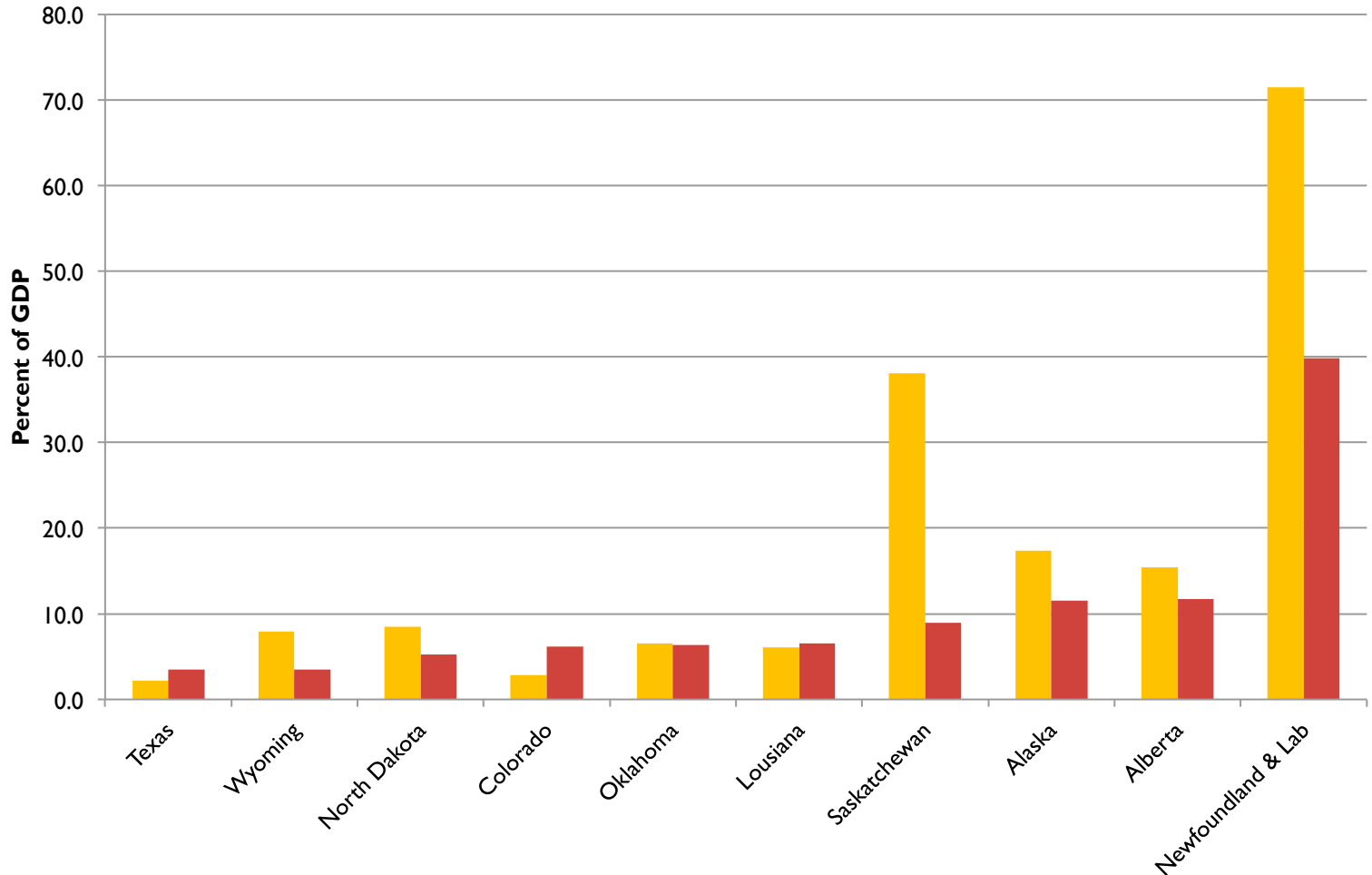
**Resource Revenue as Percentage of Total Alberta
Provincial Government Revenue: 1970-2012 (Source:
ADOE)**



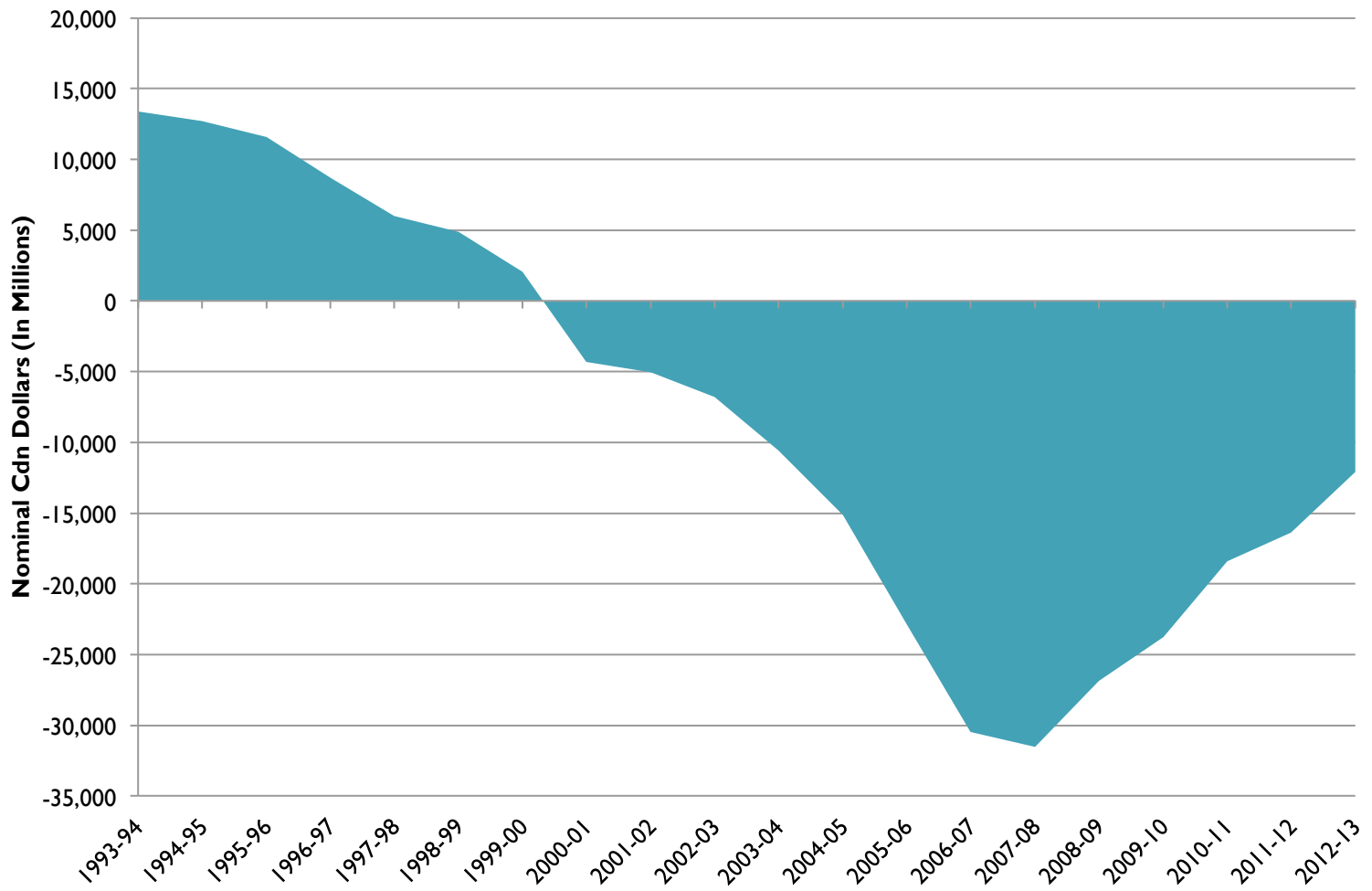
Average Per Capita Deficit without Natural Resource Revenues, 2000-2011 (US PPP\$)



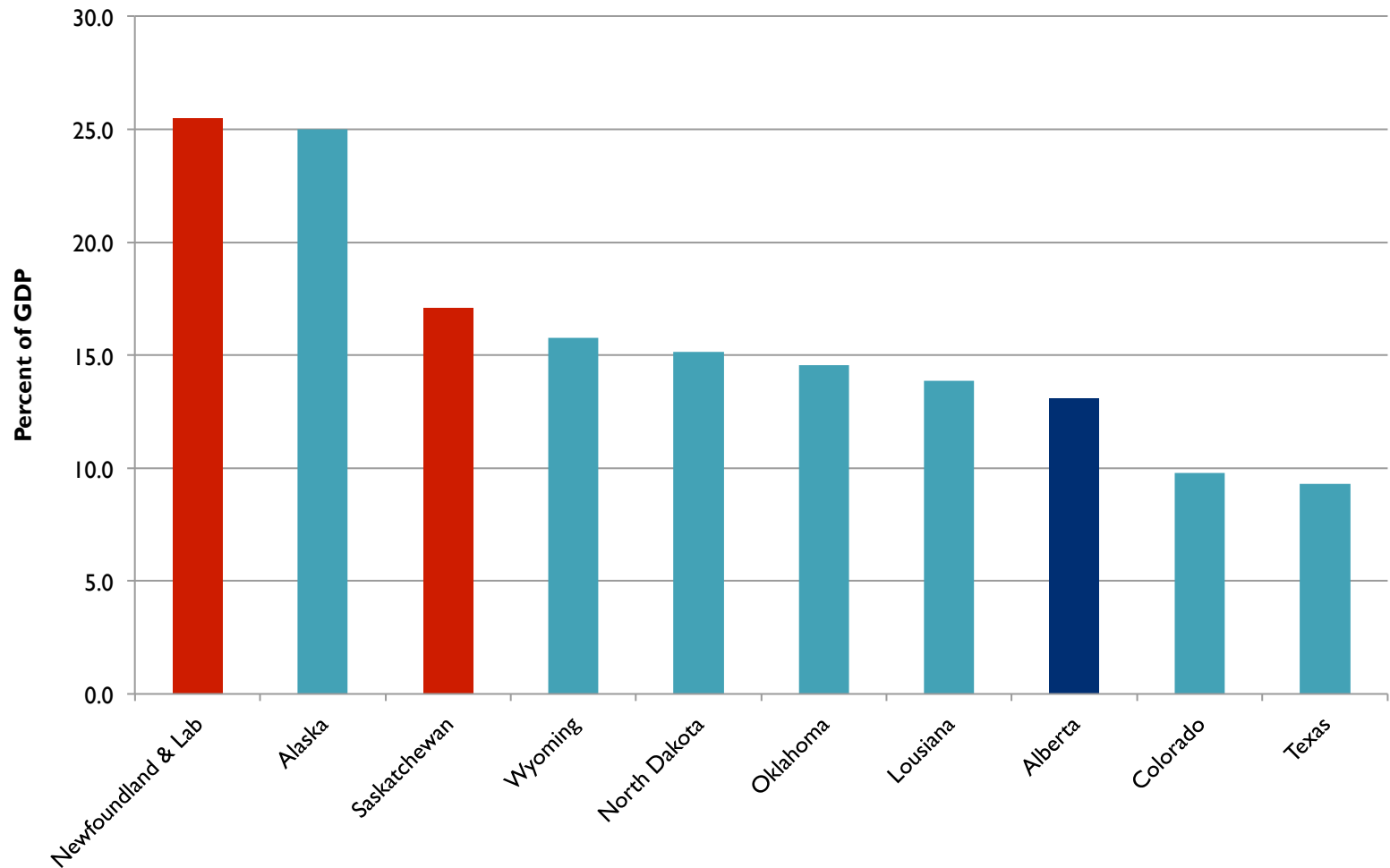
Gross Public Debt to GDP Ratio, 2000 and 2012



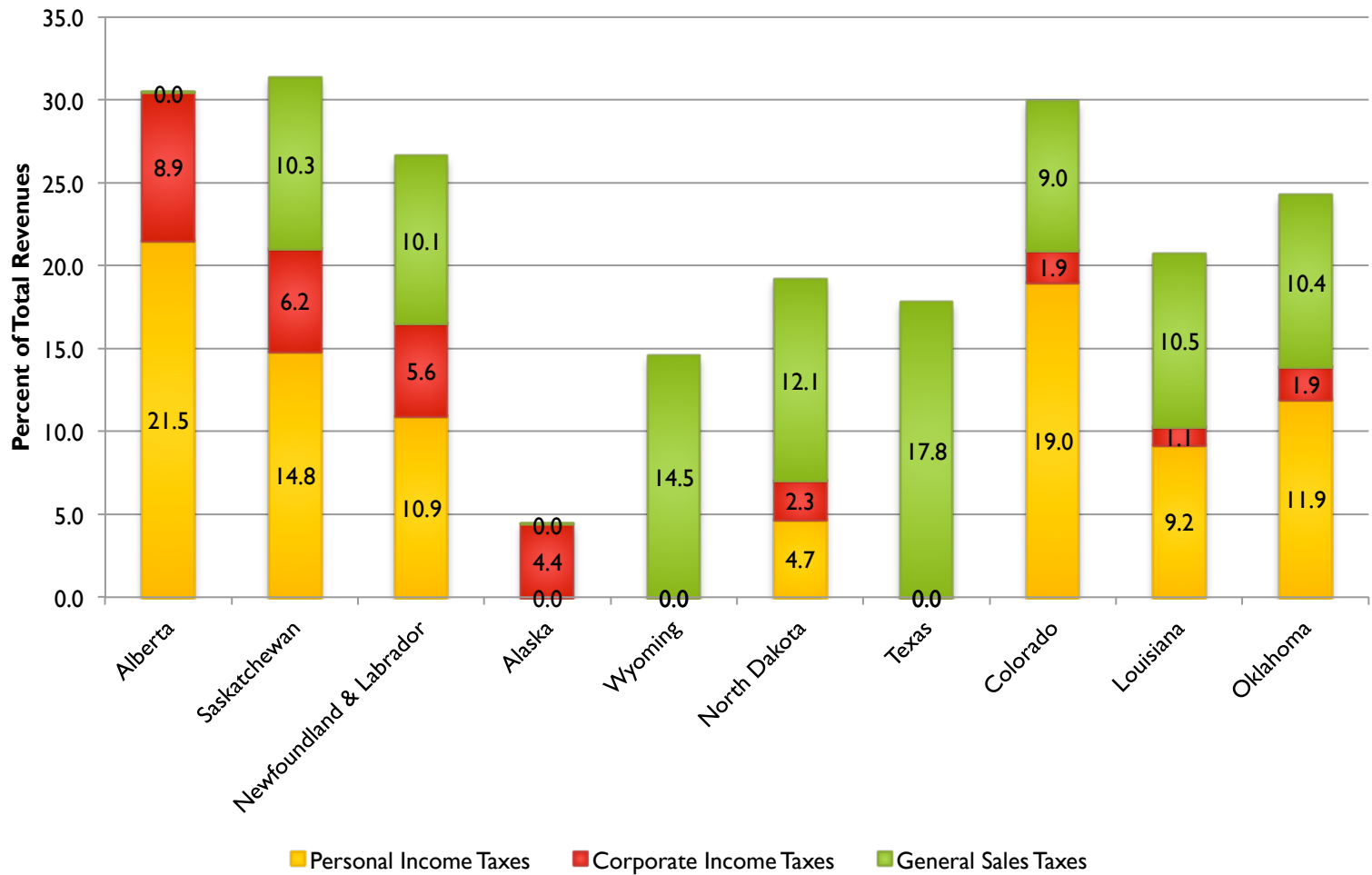
Nominal Net Debt in Alberta, 1993/94 to 2012/13



Average Annual Government Expenditure to GDP Ratio, 2000-2011

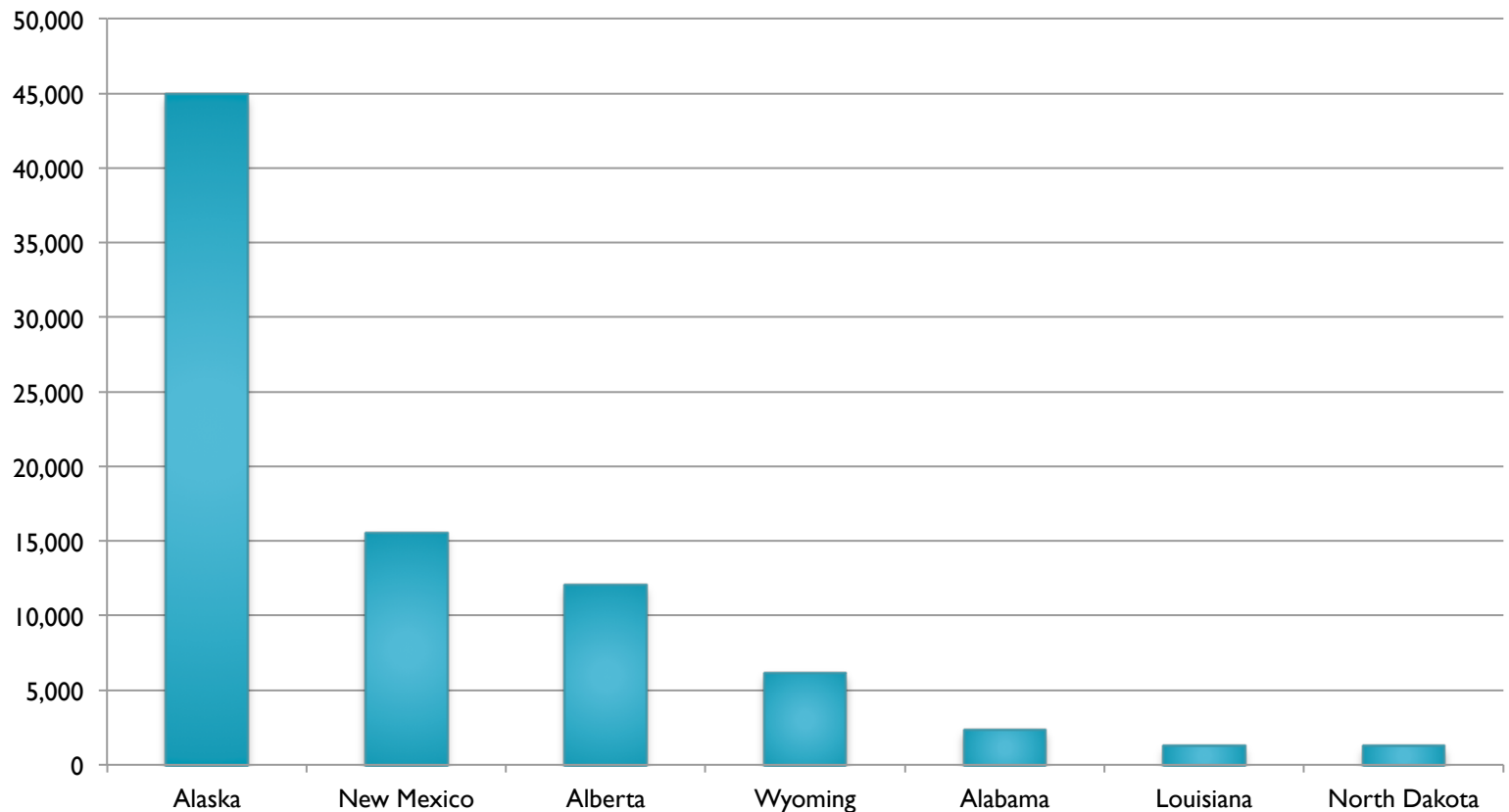


Revenue Composition, 2011-12



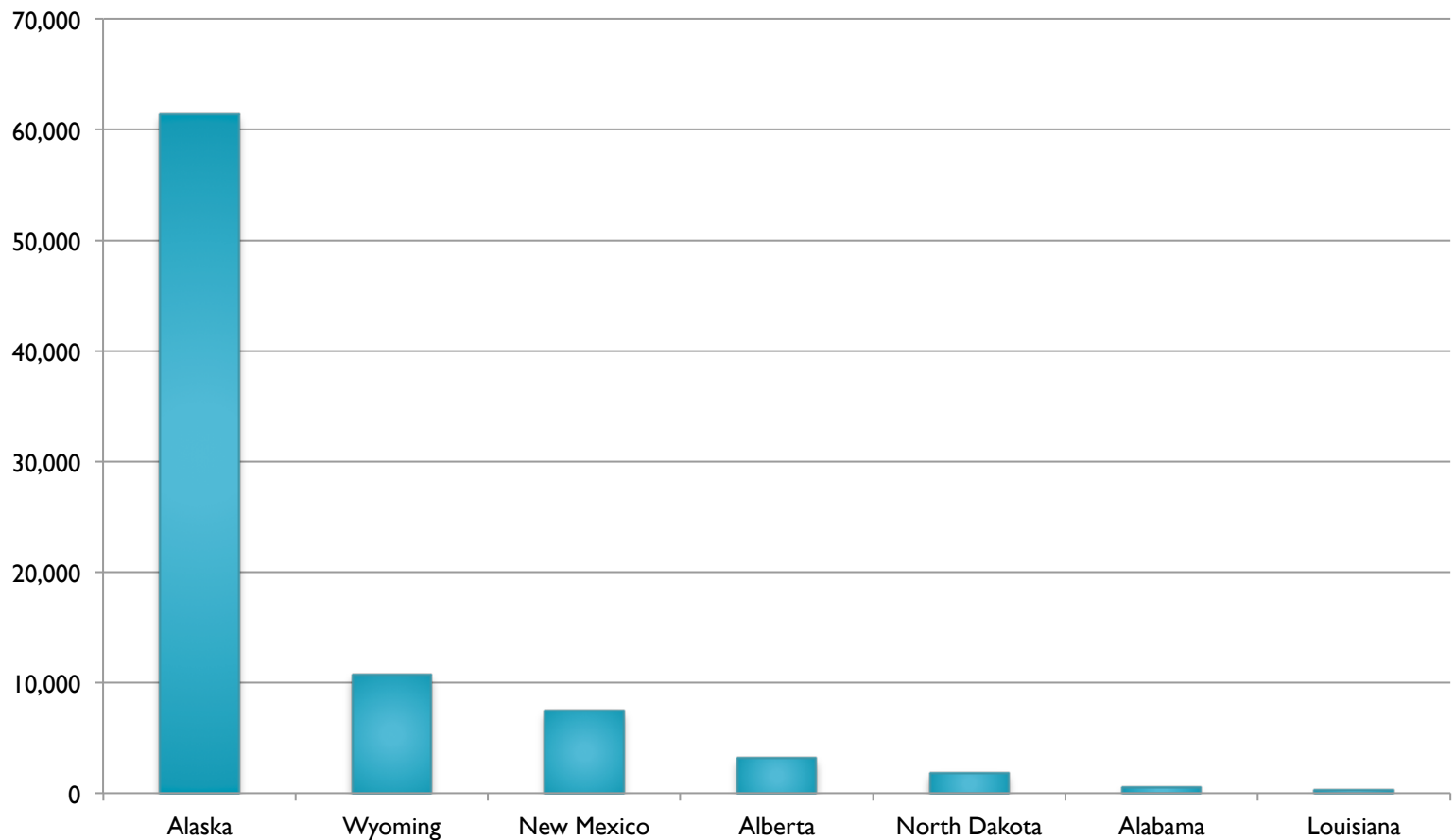
Sovereign Wealth Funds, 2012-13

Total Value of Sovereign Wealth Fund, 2012-13 (millions of US PPP\$)



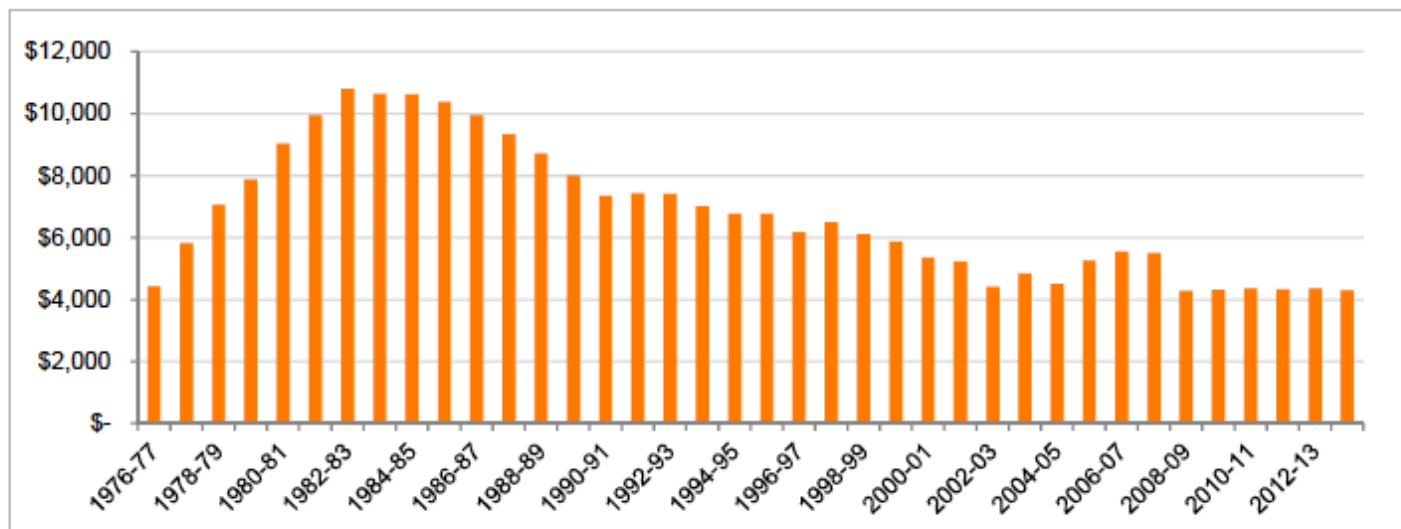
Per Capita Value of Sovereign Wealth Funds (US PPP\$)

Per Capita Value in 2012-13 (US PPP\$)



Alberta's Fund Has Seen a Decline in Per Capita Value (Source: AHSTF Annual Report, 2013-2014)

Market Value Inflation Adjusted Per Capita
(2014 dollars)



Fiscal Performance Assessment

- Alberta's fiscal balance has not rebounded as strongly as the other energy-producing jurisdictions.
- When resource revenues are removed, Alberta moves from having the fourth highest average surplus (per capita) over the 2000-2011 period to having the second largest average per capita deficit.

Spending

- In terms of the size of government of the energy-producing jurisdictions, Alberta maintains the fourth highest level of per capita spending but the third smallest government sector as a share of the economy.
- This apparently contradictory conclusion is rooted in the per capita income of the province compared to other jurisdictions.
- Alberta's high comparative income level allows for a smaller share of the economy to be spent in the government sector but translate into a fairly high level of per capita dollar spending.

Saving

- Alberta's Heritage Fund, which forms part of its assets, is unique in Canada and it is the third largest in terms of total value among the jurisdictions reviewed.
- However, fund value per capita is one-twentieth the value of Alaska's, one third the value of Wyoming's, and less than half the value of New Mexico's.
- Also, at 24 percent, Alberta's fund has seen the slowest growth of the six funds in existence between 2000-01 and 2012-13.

Taxation

- Alberta has the highest reliance on corporate income taxes with 8.9 percent of its total revenues coming in the form of corporate income taxes.
- When Alberta is compared to other major energy producing jurisdictions in both Canada and the United States it reveals a greater reliance on both personal and corporate income taxes as a share of total revenue than these other jurisdictions.
- Given the distortionary nature and incentive effects of income taxes compared to consumption taxation, this tax structure does reduce Alberta's competitive advantage and economic efficiency.
- By reforming the tax system to rely more on consumption taxes and less on income taxes, Alberta would not only bring its mix of taxes more in line with competing energy producing provinces and states but would also improve the efficiency of its tax system.

Conclusion

- Alberta has done well given the blessings of its natural resource bounty.
- Concerns about productivity and sustainability of public finances
- Can do better.