Intelligence MEMOS

From: Grant Bishop

To: Alberta Taxpayers

Date: October 25, 2019

Re: **Alberta Budget 2019 Plots A Bold Path to Rebalance Provincial Finances**

Yesterday, the Alberta government released its fiscal plan for 2019 to 2023. This is a budget that confronts hard choices and follows through on tax reduction to propel economic growth.

The government articulated a fiscal plan to return to balanced budgets by 2022/23 through a $350 million reduction in program spending over the next four years to bring it in line with average per capita provincial spending nationwide. It will also continue with its election commitment to reducing the corporate income tax rate from 12 percent to 8 percent by 2022/23.

The C.D. Howe Institute's Shadow Budget for Alberta echoed the arguments of the panel chaired by Janice MacKinnon for reining in spending to nation-wide benchmarks with a spending freeze. Yesterday's budget did exactly this, which translates to real per capita spending reductions over the coming four years. Currently, Alberta spends more per capita than other provinces on health and education without delivering demonstrably superior outcomes.

In health, the budget flat-lines both hospital spending and physician compensation. Hospital spending control will require rigorous targeting of efficiencies. A first step in this budget is investing in lower-cost long-term beds to shift load from acute care. Finding further savings in hospitals will require successfully executing systemic change on the frontlines.

For physicians, the budget indicates that compensation will be renegotiated following the expiration of the present agreement with Alberta's doctors. With talks looming, the budget is muted on details for rejigging physician compensation, which is well above provincial averages.

When those negotiations start, our Shadow Budget contends that rationalization should focus on specialties that have seen significant productivity gains without corresponding reduction in fee-for-service rates. Alberta should also push towards to capitated models where physicians' compensation is driven by outcomes for practice groups.

Notably, the government also plans to confer authority on the Minister of Health to place controls on where physicians can practice. The government should use this to allow for a "dual practice" where physicians can also deliver a share of their hours privately.

For education, the government plans to preserve K-12 instructional funding – and ensure that more of the investments flow through to classrooms.

Post-secondary education will be the focus of cuts to funding, given high costs relative to provincial counterparts. Further, funding allocations for institutions will be tied to outcomes starting in 2020/21. The budget does not disclose what performance metrics will be the focus and how much funding will be tied to performance. Linking funding to post-graduate employment outcomes is appropriate to encourage institutions to competitively deliver programs that successfully enhance students' human capital.

Alberta's tuition freeze will also end, and institutions will be allowed increases of up to 7 percent annually across all programs. Alberta has generous student loan and grant programs, but preserving access must be a focus. Our Shadow Budget recommended a move towards income-contingent student loans (i.e., with repayment terms depending on post-grad earnings), which would complement a move to performance-based funding for institutions.

Alberta has embarked on the path to efficiently revamping social spending, targeting support to the most vulnerable. The consolidation of tax credits into an Alberta Child and Family Benefit will boost income support for lowest income households while encouraging labour market attachment.

A large flashpoint in advance of this budget has been the government's follow-through on its planned corporate income tax reduction. Economic research – in particular by Bev Dahlby and Ergete Ferede – has emphasized the high cost of Alberta's present corporate tax to the economy and the potential to significantly boost economic growth with a reduction. This will have a relatively small fiscal cost given the boost to economic growth and likely tax shifting to Alberta. More importantly, a reduction will change behaviour, encouraging business investment in Alberta and boosting incomes economy-wide.

Alongside the corporate income tax reduction, the government has chosen to do away with a raft of boutique tax credits that had grown significantly in past years. These were selectively available and targeted to specific industries. A broad-based tax cut that encourages new investment and leverages market forces to identify comparative advantage is a better way to promote diversification without picking winners, as boutique tax credits do.

Looking ahead, the government must maintain the discipline laid out in the budget, formulate detailed policy for its budgeted ambitions, and execute measures to achieve this planned spending restraint.

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