



**THE EMPLOYMENT IMPACT  
OF ELECTION PROMISES:  
Analysis of budgetary scenarios  
of UCP and NDP platforms**



**“Jason Kenney is proposing dramatic cuts in the levels of public services.”**

As Albertans head towards the province’s election day on April 16, they are being presented with starkly different visions of the future of public services and public finances in the province.

Although Albertans may not realize this, under the guise of a plan to accelerate the balancing of the provincial budget, the United Conservative Party of Jason Kenney is proposing dramatic cuts in the levels of public services and employment. Over the past few months various approaches to budget balance have been floated by the UCP:

- Reducing per-capita spending in Alberta to the same level as in B.C. within four years.
- Freezing public spending for a UCP government’s first term in office.
- Eliminating the deficit over the four years of the mandate.

The UCP released its formal platform on March 31, 2019 resolving some of the mystery. According to the plan, the budgetary deficit would disappear in the fourth year of a UCP mandate in 2022-23. In contrast, the NDP government forecasts a deficit of \$3 billion for that year. However, the UCP also includes \$3.7 billion (mostly corporate) tax cuts in the plan, so how will this deficit be addressed to balance the budget?

To actually achieve a balanced budget, much more than that amount would have to be cut from public programs. Compared with a base forecast which maintains the current level of per capita spending on an inflation-adjusted basis, more than \$7 billion in annual program spending would have to be cut by the fourth year of the UCP’s plan. This would be a cut of 12%, one dollar in every eight, currently invested in public services and employment in the province.

There still is a lot of missing information about the impact of the UCP’s proposals. Jason Kenney has not acknowledged that achieving his party’s objective would put per capita investment in public services in this province close to the lowest level in Canada, and would further reduce the relative size of the public economy in Alberta, already the smallest as a percentage of GDP in the country.

Jason Kenney is happy to talk about high-level numbers, and has provided exhaustive detail concerning many small new spending proposals designed to attract support for his plan, but has kept hidden what changes would actually have to be made in public services in the province to meet its overriding fiscal goal and pay for its (primarily corporate) tax cuts.

The UCP has made a habit of comparing Alberta’s fiscal situation with British Columbia when it comes to the spending bottom line. However, this

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is essentially comparing apples to oranges, because B.C. has a more stable revenue mix, including a sales tax, and is far less reliant on volatile non-renewable resource revenue. A closer look at the ‘match B.C. scenario’ in areas where services in B.C. diverge from Alberta’s reveals that B.C. “saves” money by:

- Investing substantially less than Alberta in elementary and secondary education;
- Allocating less per capita to health care than Alberta;
- Providing less income support for seniors than Alberta does through its Alberta Seniors Benefit, which results in Alberta having the lowest poverty rate among seniors in Canada;
- Investing less in infrastructure development to support the province’s faster population and economic growth; and
- Investing less in support of economic development in the province.

Not talking about where the reductions are going to come from may make them politically invisible; it will not make them any less consequential when they are imposed on the province.

A substantially lower level of investment in public services will have an adverse impact on the quality of life of millions of Albertans. It will also have a substantial adverse impact on an Alberta economy made fragile by the turmoil in the energy sector.

## **The oil and gas recession and employment in Alberta**

Between 2014 and 2017, Alberta lost roughly 50,000 jobs in the private sector. That loss was made up of 73,000 jobs in the goods producing sector and a further 8,500 jobs in professional, scientific and technical services, offset in part by increases in private sector employment in health care, wholesale trade and warehousing, and retail trade.

In 2018, 20,000 of those lost jobs came back, reducing the net loss in private sector employment to about 30,000. The continuing investments of governments at all three levels – provincial, federal and local – in public services was critical in that period in mitigating the impact of the downturn in the energy sector on Alberta’s economy more generally. Between 2014 and 2018, approximately 60,000 jobs were created in the public sector in the province, without this continued public investment, and the spin-off jobs it generated, the energy recession would have been significantly worse.

## **The outlook for the next four years**

The role that public sector employment in Alberta has played in mitigating what could have been a much worse economic downturn from the crisis in the energy sector underscores the significance of the differences in the budgetary scenarios suggested for Alberta’s post-election future.

In this report, we compare the impacts on economic activity and employment over the next four years of the fiscal scenarios implied by the fiscal strategy of the Notley government, as set out in its 2018 Budget, and the plan announced at the end of March by the UCP. For reference, we also evaluate the impact of a move to the same level of per capita expenditure as British Columbia over that four-year period.

In each case, the impacts are measured relative to a base case in which per capita public services spending in the 2018-19 fiscal year is maintained, after adjusting for inflation, for the next four years.

In each scenario, we also look at the expected path of the provincial budget deficit over that time period. For the Notley government scenario, we extended the projection period in the 2018-19 budget for a further two years, assuming no change in Alberta's revenue system and using the same underlying economic assumptions as used in the budget. For the Jason Kenney party scenarios, we took into account the large corporations income tax rate cut from 12% to 8% and the elimination of the carbon tax and emissions levies on large polluters detailed in the UCP platform document. In each case, we use the UCP's estimate of the cost of its proposed policy. In our evaluation of the UCP platform, we also use the UCP's estimate of provincial revenue.

In making our base-case projection – maintenance of real, per capita, public spending – we assumed that inflation would continue at the 2% level that has prevailed consistently over the past 30 years and that Alberta's population would grow at the rates projected in the 2018-19 budget, 1.5% in three of the four years and 1.6% in one of the four years.

Differences in expenditures relative to the base case were estimated to have a multiplier effect of 1.8 times – 1.0 times as a direct effect, and 0.8 times as an indirect effect. This assumed multiplier effect is extremely conservative. Depending on the category of public spending, macroeconomic multipliers for public spending would normally fall in the 1.75 to 2.5 range. Accounting for "leakage" of the secondary impact into other jurisdictions – estimated to be 20% – the total multiplier impact in Alberta was estimated to be 1.64 times.

The economic multiplier impacts of the two categories of tax cuts included in the UCP scenarios were estimated as follows:

- For the carbon tax, no direct GDP impact and an indirect GDP impact of 1.0, with 40% of that impact outside Alberta; and
- For the corporate tax and the elimination of emissions levies on large polluters, no direct GDP impact and an indirect GDP impact of 0.6, with 60% of that impact outside Alberta.

In an unacknowledged reference back to the Reagan era, in which corporate tax cuts were supposed to pay for themselves, the UCP in its plan assumed that 40% of the cost of the corporate income tax cut would bounce back through increases in the corporate tax base. That rebound effect – amounting to \$700 million in 2022-23 – was ignored in our analysis as it amounts to nothing more than wishful thinking.<sup>1</sup>

Employment impacts were calculated by applying the direct expenditure impact as a percentage to estimated total provincial public sector employment and to employment in the post-secondary education sector adjusted to reflect the fact that provincially controlled resources account for only approximately 65% of the revenue base for post-secondary institutions.<sup>2</sup>

Total employment effects on the private sector were estimated by applying the estimated GDP impact to total provincial employment, and thus reflects the estimated multiplier effects on GDP of the expenditure and tax changes considered in the analysis.<sup>3</sup>

To estimate the impact on private sector employment, the public sector employment impact determined above was subtracted from the estimated total employment effects determined above.

### **Scenario #1 – The base case**

In the base case, real per-capita spending is maintained at its 2018-19 level for the full four-year projection period. The expenditure, GDP and employment impacts are estimated relative to this base case. For budget balance projections, the status quo revenue system as set out in Budget 2018-19 is assumed to prevail for the four-year period.

In this base case, the deficit declines over the four years from \$8.3 billion in 2018-19 to \$3.6 billion in 2022-23.

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1 Please see this earlier AFL analysis of the UCP corporate tax plan. [http://www.afl.org/ucp\\_corporate\\_income\\_tax\\_cuts\\_a\\_case\\_of\\_magical\\_thinking](http://www.afl.org/ucp_corporate_income_tax_cuts_a_case_of_magical_thinking)

2 Note that the implicit assumption here is that expenditure reductions will result in a proportional reduction in employment. Given that employment costs make up a disproportionate share of variable expenditures, this assumption would likely lead to a conservative – lower than likely – estimate of employment impacts.

3 Note the implicit assumption here that the employment-intensity of GDP remains constant.

### Scenario #2 – The NDP government’s fiscal plan

Although the government’s fiscal plan is generally consistent with maintenance of real-per capita levels of public services investment, there are slight differences that would be expected to produce a modest negative impact on the GDP growth rate of 0.2% over the four-year period. Public sector employment would decline by approximately 2,200 with a further indirect impact on the private sector of 3,300 for a total of 5,500.

In this scenario, the deficit would decline from \$8.3 billion to \$3.0 billion over the four-year period before taking into account the negative effect of reduced economic growth on revenue. Taking that effect into account would result in a deficit of approximately \$3.1 billion.

### Scenario #3 – The UCP platform plan

In the UCP plan, \$7 billion in expenditure cuts, partially offset by \$3.7 billion in tax cuts would result in a substantial reduction in public spending relative to the base case and would produce substantial adverse economic and employment impacts.

The cumulative aggregate economic effect over four years would be a reduction in GDP of 2.5%.

Public sector direct employment losses over the four-year period would reach 27,700, with indirect effects on the private sector producing a further loss of 30,600 for a total job loss of 58,300 jobs.

The deficit would be eliminated in the fourth year, with a surplus of \$14 million before taking into account the negative effects of reduced economic growth on revenue. Taking that negative impact into account would result in a deficit of \$1.5 billion.

### Scenario #4 – Transition to B.C. per-capita expenditures over a four-year period

In this scenario, we assumed that Alberta would transition over the four years of the projection period to the level of expenditures per capita that B.C. would reach assuming that its 2018-19 per capita expenditure level was maintained on an inflation-adjusted basis. In other words, we assumed that Alberta would not transition to B.C.’s 2018-19 dollar value of expenditures per capita but rather to the estimated dollar value of expenditures per capita in the fourth year of the projection period.

Over a four-year period, GDP would be reduced by 3.6%. Direct employment would be reduced by 38,900 with further indirect losses of 45,700 for a total of 84,600.

The budget would move into surplus of \$1.77 billion in the fourth year of the projection period before accounting for the adverse revenue impact of reduced economic growth. Taking reduced growth into account, that surplus turns into a deficit of \$400 million.

## SUMMARY COMPARISON OF EMPLOYMENT IMPACT SCENARIOS

Scenario	Employment loss over 4 years			GDP impact
	Public sector	Private sector	Total	4 year cumulative
Base case	0	0	0	0
NDP government’s fiscal plan	2,200	3,300	5,500	-0.2%
UCP platform proposals	27,700	30,600	58,300	-2.5%
B.C. per capita spending in 4 years	38,900	45,700	84,600	-3.6%

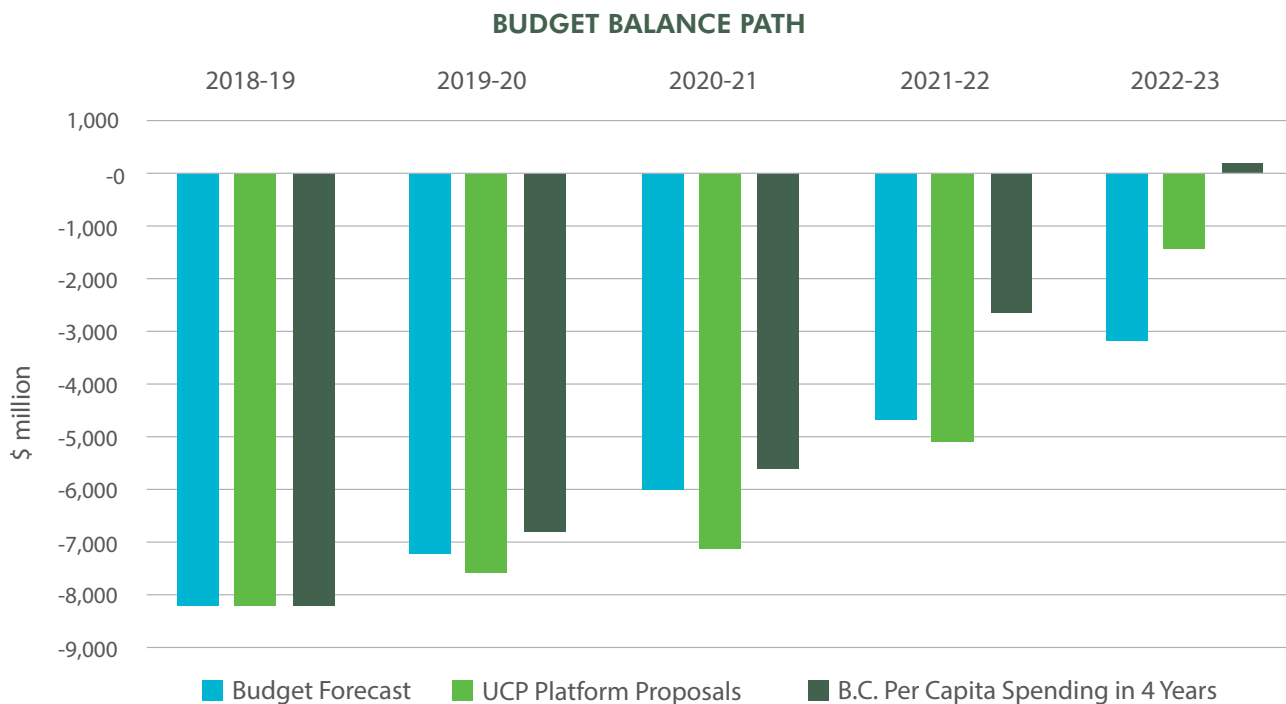


## What this issue is really about

Jason Kenney’s party presents its fiscal strategy as a necessary response to a purported fiscal crisis.

The numbers make it clear that this is not the case. An extension of the Notley government’s 2018-19 budget projection indicates that, by the end of the four-year mandate of the next government, Alberta’s budget deficit will be reduced to \$3 billion. Based on estimates of GDP growth, that deficit in 2022-23 will be 0.7% of GDP – well below the accepted norm for fiscal management of 3% of GDP.

Furthermore, the UCP deficit path only drops below the path in the Notley government’s projections in the fourth year of the projection, once the negative effect on revenue of reduced economic growth is taken into account. At the end of the four-year period, the projected deficits are \$3.2 billion for the 2018 budget plan and \$1.4 billion for the UCP plan. Looking at the likely bottom-line impacts, it is clear that the point of the UCP’s fiscal strategy is not to address the deficit or debt, since the UCP’s stated debt load after four years of \$86 billion is not far off from the NDP projection of \$95 billion.



**“these cuts are designed to achieve Jason Kenney’s ideological objective of reducing the level of public services provided to Albertans”**

The drastic expenditure cuts are not actually required to manage Alberta’s fiscal deficit. Rather, these cuts are designed to achieve Jason Kenney’s ideological objective of reducing the level of public services provided to Albertans, regardless of their need for the benefits provided by those services.

The spin being placed on this dramatic change in Alberta’s public finances is that the UCP’s proposed tax cuts will pay for themselves, and generate enough additional revenue to make a significant contribution to deficit reduction.

According to Jason Kenney’s statement at the time of his announcement of the UCP’s proposed corporate tax cut,

the \$1.75 billion corporate tax cut will generate a \$12.7 billion increase in Alberta’s GDP and 55,000 jobs. And according to Mr. Kenney, it wouldn’t even cost Albertan’s that much, because tax revenues will actually increase

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**“The negative impact of the proposed budget cuts on employment in the province would be greater than the negative impact of the energy crunch on Alberta’s economy.”**

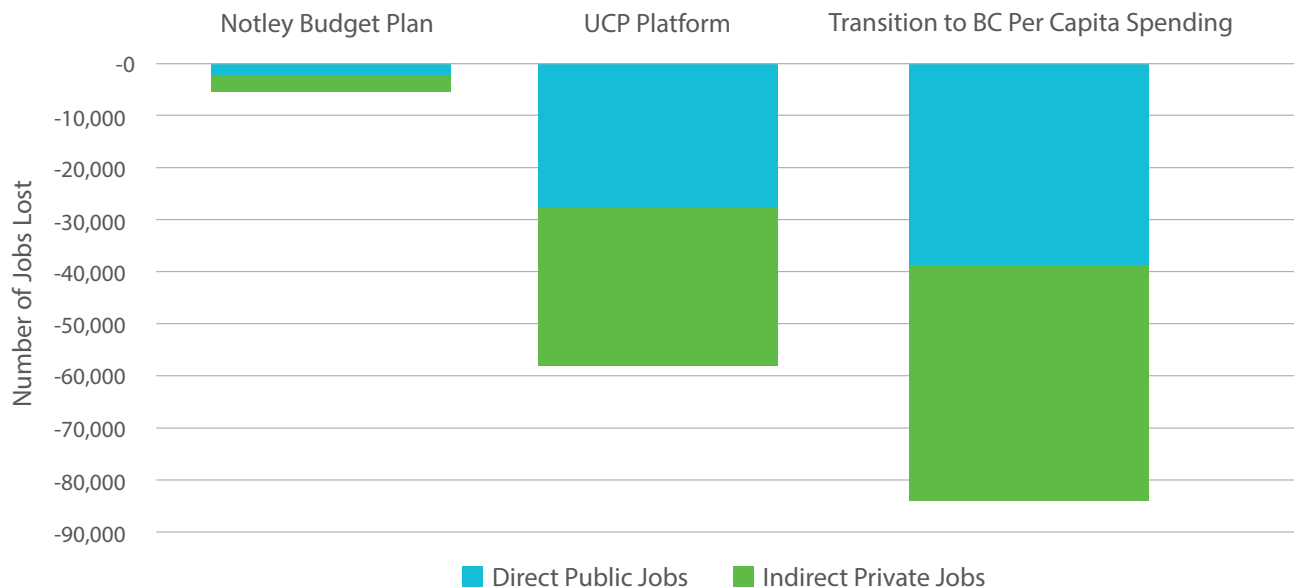
by \$1.2 billion. In the actual platform document, the details have changed a bit. The imagined revenue rebound of \$1.2 billion has been reduced to \$700 million, back end loaded to the end of the forecast period.

Does the idea of self-funding tax cuts sound familiar? It should. That’s what Ronald Reagan’s economic advisors said when his administration slashed taxes in the 1980s, leading to dramatic cuts in revenue, a ballooning deficit and no discernable impact on economic activity. That’s what George W. Bush’s economic advisors said when his administration cut taxes in the 2000s, leading to dramatic cuts in revenue, what was then the largest deficit in US history, and with no discernable impact on economic activity. And that’s what Donald Trump’s economic advisors continue to say as his massive tax cut craters US government revenue, creates what is now the largest budget deficit in US history and is now clearly ushering in the end of the economic expansion that reached its peak under the Obama Administration.

To put the consequences of this ideologically driven attack on public services into perspective, the fiscal strategy proposed by the UCP in its platform would cut employment in Alberta by nearly 60,000 over a four-year period. Their stated longer-term objective of reducing Alberta’s per capita public services investment to the level in B.C. would push job losses further, to a total of nearly 85,000.

That loss compares with the loss of 50,000 jobs net during the depths of the energy crunch, between 2014 and 2017. The negative impact of the proposed budget cuts on employment in the province would be greater than the negative impact of the energy crunch on Alberta’s economy. The difference is that the economic crisis in the oil and gas industry was created by factors beyond the control of Albertans; the economic crisis that would be created by the Jason Kenney party’s fiscal policies would be self-inflicted.

### COMPARISON OF EMPLOYMENT IMPACTS ALTERNATIVE FISCAL SCENARIOS



Under the Notley budget plan, 5500 jobs would be lost. Under the Kenny budget plan between 58,000-85,000 jobs would be lost – more than were lost in the recession of 2015-16

This Alberta Federation of Labour report was created in consultation with Hugh MacKenzie.

### About Hugh Mackenzie

Hugh Mackenzie is principal in an economic consulting business, Hugh Mackenzie and Associates, based in Toronto. In that capacity, he conducts research projects on economic and public policy and provides specialized support to unions and employee organizations in collective bargaining.

He has worked for over 35 years in a variety of capacities related to public policy development in the trade union movement, the private sector, and at all three levels of government and was part of the Alberta Premier's Advisory Committee on the Economy.

He is a graduate of the University of Western Ontario and holds a Masters degree in economics (public finance) from the University of Wisconsin (Madison).