



# THE “KENNEY RECESSION” CONFIRMED



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On October 24, 2019 the UCP Fiscal Plan in the Alberta Budget was announced. An analysis of the budget shows that it follows closely the recommendations set out in the MacKinnon report issued in September 2019. As stated in our previous report [The “Kenney Recession.”](#) the recommendations of the Blue Ribbon Panel on Alberta’s Finances, and in turn this budget, will put Alberta on a short path to economic recession.

Because the Fiscal Plan provides for an expenditure contingency and a revenue forecast beyond that recommended by MacKinnon, the spending cuts required in nominal terms are somewhat higher – 2.8 per cent at the end of four years as opposed to MacKinnon’s recommended 2.2 per cent cut.

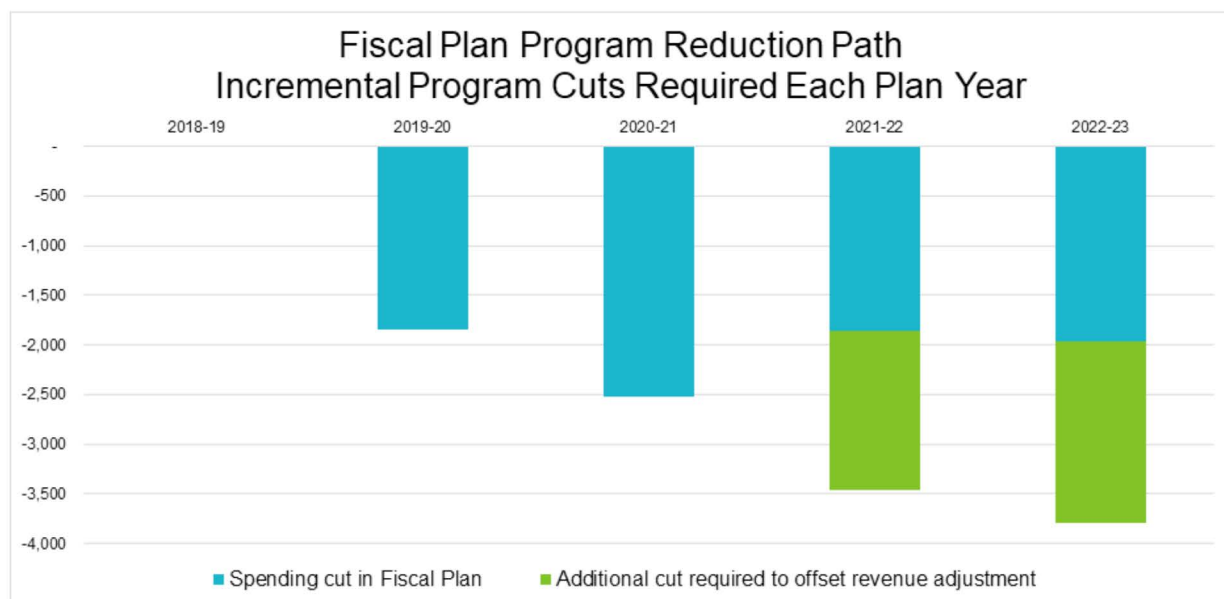
Notably, the Fiscal Plan follows exactly the path of revenue growth shown in the MacKinnon report, with an adjustment upwards of \$400 million in each year, apparently reflecting higher than expected revenue in the 2019-20 fiscal year extended through the full four-year plan period.

The MacKinnon report revenue growth forecast for the last two years of the fiscal plan period is extraordinary. It calls for revenue growth of over 7% in each of those years. To put that into perspective, that is roughly double the rate of growth of GDP generally forecast by non-government forecasters for the period. To put the revenue growth forecast further into perspective, the annual rate of revenue growth over the period from 2005-6 to 2018-19 was 2.4%. In that period, revenue growth reached or exceeded 7% only in the years of the oil and gas price boom. Revenue growth of this order of magnitude is only possible with an as-yet-undisclosed driver of higher revenue in those years: either an oil and gas price boom that takes prices far above those anticipated in the government’s own forecasts, or an undisclosed increase in revenue from some other source, such as a sales tax. The jump in revenue relative to reasonable forecasts is consistent with the introduction, over a two-year period, of a sales tax at the 8% rate currently applicable in Ontario.

This exaggerated forecast is significant, because the Minister of Finance has made it clear that the goal of eliminating the deficit in four years is the government’s priority. As a consequence, if the government’s fanciful revenue forecasts fail to materialize, further significant cuts in public services will be imposed.

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## HIGHLIGHTS OF THE DIFFERENCES



Each bar in the above chart represents the cut in spending, relative to an expenditure level that maintains inflation-adjusted service levels and relative to the cuts in the previous year. So, for example, the bar for 2020-21 shows an additional cut of \$2.5 billion in public services on top of the cuts to take effect in the 2019-20 fiscal year. The blue bars demonstrate that the government's Fiscal Plan calls for public services cuts in the neighbourhood of \$2 billion relative to the spending that would be required to maintain the inflation adjusted level of service the government inherited in 2018-19. In nominal terms, the budget cuts would amount to 2.8% over four years. Relative to an expenditure level that maintains the real, per capita, value of public services in Alberta, the cumulative cut by the end of the period would be approximately 14.7%.

The green bars show the additional services cuts that would be required to offset the difference between the revenue growth rate projected in the Fiscal Plan and a reasonable forecast of revenue growth linked to GDP

growth. Cuts in service in the last two years of the plan would be double the level imposed in the 2019-20 fiscal year. In nominal terms, an adjustment of the plan to offset the loss in revenue relative to the exaggerated forecast would be 9.4% rather than the 2.8% acknowledged in the plan. Relative to a constant real per capita spending base, the cuts would cumulate to more than 20%.

Cuts of this magnitude will have a dramatic impact on employment in the province.

## SUMMARY COMPARISON OF SCENARIOS

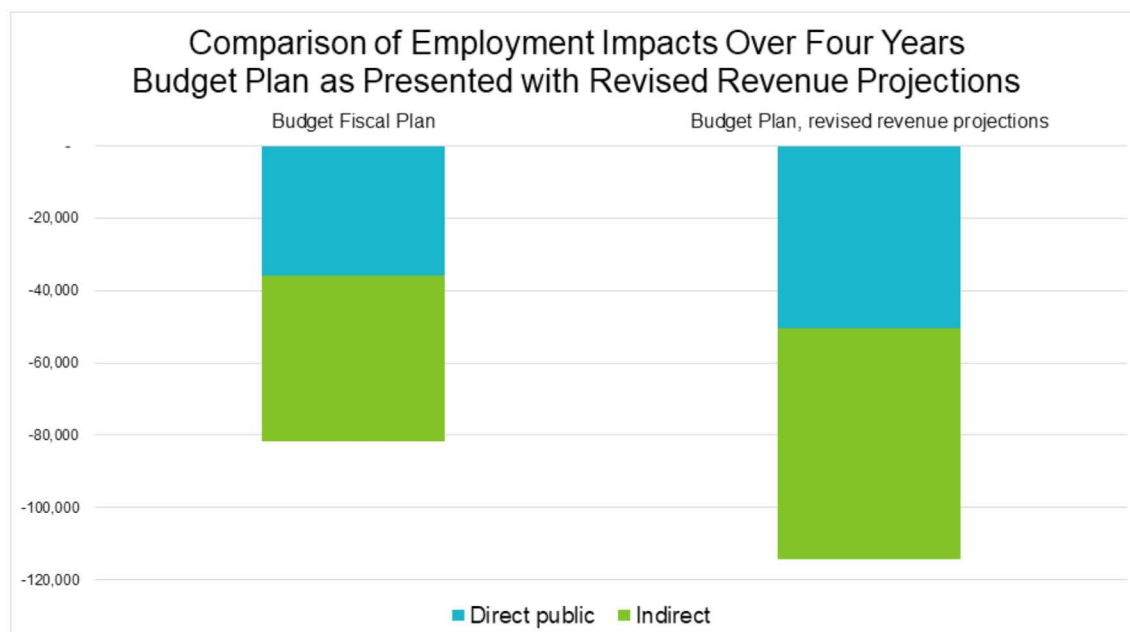
Scenario	Employment loss over 4 years			GDP impact	Impact on public service	
	Public sector	Private sector	Total	4-year cumulative	Nominal	Adjusted for inflation and population growth
#1 Government's exaggerated revenue claims	36,000	46,000	82,000	-3.5%	2.8%	14.7%
#2 Realistic revenue projections	50,000	45,500	114,000	-4.8%	9.4%	20%

The next chart highlights the impact of the proposed cuts over the four years of the Fiscal Plan, with and without the exaggerated revenue forecasts for the last two years of the plan.

The fiscal plan would reduce employment by 36,000 directly in the public sector and a further 46,000 in the private sector through the indirect impact on the economy of the reduction in public services expenditure and employment for a total job impact of 82,000.

If the exaggerated revenue forecast in the plan is replaced by a more reasonable assumption based on anticipated GDP growth, the direct job loss grows to 50,000 and the indirect loss to 64,000 for a total of 114,000.

These cuts would result in a cumulative negative impact on GDP of 4.8% and a loss of 114,000 jobs.



**“The impact of this budget on public services in Alberta will be catastrophic.”**

**“The economic impact of these cuts will be equally dramatic.”**

### The UCP Fiscal Plan is bad for Alberta's economy

Since Jason Kenney and the UCP government are indeed following the MacKinnon report recommendations, Albertans will need to brace themselves for the “Kenney Recession” with job losses that will be worse than the economic crisis caused by the drop in worldwide oil prices.


The UCP Fiscal Plan in the Alberta Budget does not promote the interests of Albertans in building a prosperous economy and enhancing their quality of life. Instead, the recommendations promote an ideology of a smaller and less effective government that only serves the interest of the wealthy elite.

Kenney blew a huge hole in the budget with his “Job Creation” corporate tax cuts, the \$4.5 billion giveaway to profitable corporations that has failed to create jobs, and he is now forcing Albertans to take drastic and unnecessary cuts to public services so that large profitable corporations can pay less in taxes.

He is reducing the public services that help ensure Albertans remain healthy and active in our communities and local economy, the public services that ensure our children receive a quality education and the public services that are a vital safety net that Albertans turn to when they are in need the most.

The UCP Fiscal Plan is bad for the economy because to build a strong economy, we need modern infrastructure to keep our businesses moving. And we need top-quality health care and education to build and maintain a healthy, skilled workforce. A strong public sector is a vital part of our economy's foundation.

The impact of this budget on public services in Alberta will be catastrophic. The economic impact of these cuts will be equally dramatic.



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 Master's degree in economics (public finance) from the University of Wisconsin (Madison).

