

Alberta Federation of Labour Alternative Fiscal Update August 2010

As the Government of Alberta releases its fiscal update, the Alberta Federation of Labour is pleased to provide the following “alternative update,” in order to ensure a more realistic and fulsome discussion of Alberta's economic prospects thus far in 2010.

Alberta's Economic Mess: If this is a Recovery, we'd hate to see a Crisis...

In July 2010, Alberta shed 13,000 full-time jobs in just a month. All employment gains in our province were due to part-time job growth, where we added 22,000 positions.

In the last two years, Alberta dropped 53,300 full-time jobs and added 50,600 part-time jobs.

When Alberta's jobs numbers are broken down by sector, we see dramatic losses in employment in some of our core industries. For example, 64,000 Albertans worked in agriculture in July 2008. Just two years later, the latest July 2010 figures show just 48,000 people working in agriculture – a loss of 16,000 jobs.

In oilfield service and forestry, 10,000 jobs vanished in two years.

Since 2008, Alberta's social assistance caseloads increased by 50%, to over 40,000 cases. According to the government of Alberta, the province has not seen income support caseloads this high since 1997. Alberta's increase was the highest in Canada. 40% of those receiving social benefits are families with children.

Going Forward From August 2010: Fiscal Stimulus Should Still Be On the Table

On July 30, the Department of Finance released their latest Monthly Economic Review. The Review summarized the latest national economic indicators, and showed:

- Alberta posted a 54 per cent growth in business bankruptcies, the second-highest in Canada (2009 vs. 2010)
- Alberta's EI beneficiaries were up 40 per cent, by far the biggest increase in Canada. The second-highest province saw an increase in EI beneficiaries of only 15 per cent. (2009 vs. 2010)
- Alberta posted only a 1.5 per-cent increase in wages and salaries, the smallest increase in Canada (2009 vs. 2010)
- Alberta showed only a 5.9 per-cent increase in retail trade, the second-lowest increase among the provinces (2009 vs. 2010)
- Alberta posted a 2.2 per-cent decrease in wholesale trade, the second-worst wholesale trade numbers in Canada, and one of only two provinces to post negative growth (2009 vs. 2010)
- Alberta has the second-lowest farm cash receipts in Canada, ahead of only PEI.

The Case for Stimulus Persists

These disturbing economic trends - including losses of full-time jobs, bankruptcies, and stalled wage and salary growth, along with a marked slowdown of equity and housing markets and consumer demand in the United

States, show that Alberta's fiscal position remains tenuous. The Conservative government's position that the federal government should wind down its stimulus programs in favour of leaving growth entirely to the private sector is proving increasingly out of step with reality. Alberta's shaky fiscal position – in part due to leaving recovery from the recession entirely to the private sector – shows that we are actually lagging the country on a number of indicators. In short, Stelmach's strategy has not worked.

Cuts to the Most Vulnerable

Alberta's Budget 2010 cuts – called a “financial engineering project” by the Conservatives – ran contrary to all available economic advice from across the political spectrum. Given the potential positive effects of economic stimulus, it is important to reiterate the unnecessary, short-sighted, and punitive nature of the cuts contained in Budget 2010 and link those cuts to the continued under-performance of the Alberta economy, particularly in full-time job losses.

Job Training

In Budget 2010, the Government of Alberta cut training programs by \$23 million, mostly for youth and aboriginal people.

Employment Training Programs in Alberta, 2009-2010

Source: Alberta Employment and Immigration Budget Estimates By Department, Budget 2010

Employment Program	2009 Forecast (in millions)	2010 Budget Estimates (in millions)	% Cut
Youth Connections	7.5	5.51	26.59%
Career Development Services	60.02	52.41	12.68%
Basic Skills/Academic Upgrading	27.48	22.93	16.55%
Summer Temporary Employment	9.56	7.41	22.48%
Workforce Partnerships	11.52	7.56	34.36%
Aboriginal Development Partnerships	3.68	3.41	7.39%

Social Assistance: Willful Ignorance and Poor Planning

Social Assistance caseloads have ballooned in Alberta, though this fact has gone almost entirely unreported in the media. Caseloads increased by over 10,000 so far in 2010. However, government continues to underfund social assistance programs, and targets those areas for further reductions.

- In Budget 2009, government projected spending \$361 million on income support. Income support caseloads grew by more than 10,000 in 2009 to just over 30,000. Government *actually* spent \$490 million in 2009.
- Government budgeted just \$449 million for income support in 2010 – \$40 million less than their 2009 expenditures. But so far in 2010, income support caseloads have already grown by 10,000 over 2009

levels.

- Reports in today's Calgary Herald are that further job reductions are targeted for “social assistance programs.”¹

The reality is Alberta has an income support crisis on its hands because we have a jobs crisis. Whether the unemployed are exhausting their EI benefits, or, as is often the case in Alberta, not EI-eligible in the first place, people are having to turn to income support in record numbers.

Housing & Children's Services

Housing programs were cut by \$94 million in Budget 2010. Children's Services were cut by \$34 million – or almost a third of the ministry's operating budget – in Budget 2010.

The Sustainability Fund – valued at over \$15 billion – exists for a reason. That reason is to weather dramatic dips in commodity prices. The Sustainability Fund should be used for its intended purpose, which is to shield the most vulnerable Albertans from the shifting winds of the global economy.

Commodity Prices – Crude Oil, Natural Gas & Crude Bitumen

The U.S. Energy Information Administration reported Aug.10 that it is projecting the spot price for West Texas Intermediate crude oil to average US\$81 per barrel in the fourth quarter.²

In Budget 2010, Alberta forecast WTI at US\$78.75. Thus far, WTI has averaged US\$78.16.³

So far in 2010, natural gas prices are slightly off government's forecasts (forecast is \$4.25/GJ, January – June 2010 actuals have average \$3.96/GJ). However, Alberta's natural gas reference prices always dip in spring/summer and rebound in fall/winter.

Bitumen prices are up from the Department of Finance's Budget 2010 forecasts. The forecast was C\$56.38/bbl. Bitumen has averaged \$57.75 January – July 2010.⁴

The Heart of the Problem: Revenue, Revenue, Revenue

Our reliance on commodity prices rather than more stable tax revenues means that any small blip in the markets sends Alberta's finances on a wild ride. As we have seen, vulnerable Albertans are most at risk, but ordinary working families are clearly feeling the pinch. We have to be able to do better – the good news is, we can.

Alberta has an enormous amount of room to increase its revenues, both from non-renewable resources and other sources.

- Budget 2010 estimated revenue losses due to the royalty holidays introduced via the “competitiveness review” at \$732 million.

1 <http://www.calgaryherald.com/business/Tories+moving+ahead+with+controversial+financial+project/3439883/story.html>

2 “EIA projects WTI at \$81 in 4th quarter.” <http://www.petroleumnews.com/pntruncate/30373719.shtml>

3 “Energy Update,” Government of Alberta Department of Energy, July 26, 2010.

4 “Energy Update,” Government of Alberta Department of Energy, July 26, 2010.

- Due to recent corporate tax reductions, US companies operating in Alberta pay \$2 billion in corporate taxes to the US Treasury – on profits they earn in Alberta.
- Alberta has the lowest personal income tax rates for the very wealthy, but the highest rates in Canada for the lowest-income workers. If Alberta were to align personal taxation with other provinces – especially for the very wealthy – we stand to gain over \$2 billion.

The Alberta Federation of Labour will be exploring further opportunities for stabilizing Alberta's revenues throughout Fall 2010 and releasing more detailed analysis of how we can reform our personal and corporate income tax systems to be more in line with the rest of the industrialized world.

Alberta's Roller Coaster a Confusing Ride for Most Albertans

Through the recession, a short-sighted Budget 2010 punished the most vulnerable Albertans. Even with a modest recovery throughout 2010, we see ordinary Albertans are not benefitting, and troubling economic indicators persist.

Albertans are rightfully shaking their heads – confused as to why we just exited one of the longest and most pronounced economic booms in Canadian history, erased by one relatively short blip in global commodity prices. Ordinary families are asking why they are being held hostage by the price of crude oil set on global markets, when we could be building a much more stable, secure economy for everyone.

There ought to be no problem here. We are blessed with a highly educated workforce, an abundance of natural resources, excellent research and development facilities at our universities, high-quality infrastructure, and health and education systems that are the envy of the world.

The Alberta Federation of Labour submits that a package of reforms – all very much in line with economic views from across the political spectrum – should be immediately undertaken. They are:

- A better plan for the Heritage Fund, green jobs, and using public resources wisely in order to build a sustainable economy;
- Tax reforms, including revisiting the unnecessarily low general corporate rate, shockingly low personal income tax rates for very wealthy individuals (some of the lowest in the industrialized world), and better assistance for low-income families, such as a provincial child benefit;
- Revisiting the royalty giveaway under the so-called “competitiveness review.”