



ALBERTA'S PUBLIC BANK

HOW ATB CAN HELP SHAPE THE NEW ECONOMY



Bob Ascah and Mark Anielski

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- bring together academic and non-academic communities.

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EXECUTIVE SUMMARY

Alberta Treasury Branches—now known legally as ATB Financial (ATB)—is a \$50 billion deposit-taking financial institution which, for all intents and purposes, operates like a chartered bank. This Alberta-based entity administers and manages over \$18 billion in investments and has nearly 750,000 customers. ATB will be 80 years old this September, and has had a long and storied (though mainly untold) history. ATB has grown into North America's largest public bank, seven times larger in terms of assets (loans) than its peer, the Bank of North Dakota. While the *ATB Financial Act* mandates a legislative debate on ATB's continuance every five years, such a review has not occurred since 2012. We therefore feel it is timely for a *public* debate on the future role of this critical Alberta institution.

This report traces the origins and history of this government-owned institution and draws out important lessons from this experience. We then consider the role of public banks within the framework of the role of money and banking in a modern economy. Drawing from this, we put forth a number of policy recommendations that we feel should be considered of strategic value to Alberta's financial and economic future. We encourage readers—particularly government policymakers—to review these proposals with a critical, but open mind.

ATB'S HISTORY AND LESSONS LEARNED

Over its eight-decade history, ATB has been embroiled in two scandals—the road-building scandal of the 1950s and the West Edmonton Mall scandal of the 1990s—both of which suggest important lessons for ATB's future.

In both cases, ATB placed too many loans in the hands of a small group of related companies. Since ATB is essentially limited to Alberta in lending money, it is necessary for the institution to ensure its loan portfolio is diversified by industry and geography, and that it limits lending large sums to one company and related companies.

A second lesson is the need to ensure that granting of loans is removed from political interference. In both scandals, large loans and loan guarantees to prominent businesses were subject to outright political direction or to strong “political interest.” Key legislative and regulatory changes in 1996 and 1997 have generally been effective in insulating ATB's credit adjudication from such political direction.

Lesson three can be characterized as the “principal-agent” problem. ATB is legally an “agent of the Crown.” This status allows ATB to exclusively contract within its mandate, thereby simplifying administrative and financial procedures. The literature on principal-agent theorizes that an

agent may take on more risks than would the principal, which leads to behaviour rewarding to the agent but may, at the same time, place the principal at financial risk. This may also work in another direction: namely, a principal that does not want to act directly may use its agent to carry out certain activity indirectly. This issue is important as it relates to executive compensation and may contribute to greater risk-taking by financial institutions ultimately bailed out by taxpayers.

Finally, ATB's current reporting is deficient in two important respects. First, there is a paucity of information concerning the sectoral distribution of its commercial loan book. Secondly, ATB has been a laggard in explaining its executive compensation. In spite of numerous recommendations in previous auditor general reports, ATB provides a vague three-page summary. Since the board of directors approves the annual report, including financial statements, this is suggestive of weak governance practices.

PRIVATIZATION

Our analysis suggests there are a number of economic and political barriers standing in the way of privatizing ATB. First, there is ATB's vast rural network, which remains politically popular in remote communities. A new board of a privatized ATB would likely act to increase profitability by closing uneconomic rural branches and agencies. Another issue would be whether the privatized entity could be taken over and the head office moved outside the province. In addition, for privatization to make sense financially, there would need to be much more detailed disclosure on ATB's loan book and executive compensation—measures that might preclude governments from proceeding. The 100 per cent government deposit guarantee, which gives ATB a significant competitive advantage, would fall off over time. All these factors, when combined, suggest privatization of ATB would be a major challenge for any government.

PUBLIC BANKS AND MONEY CREATION

Public banking is common around the world, particularly in developing and newly-developed countries. Globally, about 40 per cent of banks are publicly owned. However, there are only two public banks operating in North America: ATB and the Bank of North Dakota (founded in 1919). The countries with public banks weathered the credit crisis of 2007–08 more effectively than those without. Public banks have an inherent competitive advantage over private banks in that they can operate with a no-profit motive. Theoretically, a public bank does not need to charge the same interest rates on loans as other conventional banks if it simply is operating on a cost-recovery basis while providing for an appropriate loan loss allowance.

We contrasted the cost efficiency of ATB with other financial institutions for their 2017 fiscal operations. ATB's ratio of operating costs (non-interest operating expenses) plus provision for credit losses was 3.13 per cent, higher than Servus Credit Union (2.34 per cent) and much higher than the Bank of North Dakota (0.88 per cent). In comparison, the same ratios for the Canadian retail arms of Canada's five largest banks ranged from a low of 1.89 per cent for RBC to high of 3.17 per cent for Scotiabank.

One of the major benefits of operating a public bank like ATB is that it does not technically pay taxes and is not expected to generate the same profits as publicly traded commercial banks. While ATB makes a payment in lieu of taxes, this requirement could be eliminated. Therefore, ATB could operate with a significant competitive advantage as a low-cost-of-loan provider, with interest costs at considerably less than the prime rate. More importantly for Alberta's economy, ATB could help to finance strategic community asset development by lowering the cost of loans for all community-asset and local-business development.

Moreover, a public bank can normally borrow at lower interest rates (depending on the creditworthiness of the sponsoring government), thereby reducing the long-term cost of public investments. These advantages are unique to a public bank like ATB. A key to monitoring the quality and efficiency of management and governance of a public bank is to ensure the costs of running the loan and deposit business are as efficient and effective as possible. Our argument is that so long as all operating costs and loan losses are sufficiently covered by revenues, a public bank can operate sustainably and at a competitive advantage to commercial banks, providing considerable credit cost savings to all Albertans.

There is an often-misunderstood process of money creation. A common view of banking is that banks act as intermediaries between savers and borrowers. This view suggests that banks can only lend money from savers or from its capital base. This view is not entirely accurate. Bankers can and do make loans through a process, in effect, of loaning the borrower a deposit which forms the offsetting liability to the loan. Once the borrower uses these deposits by transferring value through cheques or other transfer mechanisms, the lending bank will be presented with the cheque and require funds to be transferred to the other financial institution. In general, so long as the economy is expanding, the loans made are prudent, and an institution's loans are widely disbursed, commercial or public banks can expand lending themselves. Indeed, the majority (97 per cent) of our modern money supply is created when private banks issue loans; only 3 per cent is created by central banks or national governments as cash, minted coinage, printed money, or currency. This means that there is effectively no limit to how much new debt-money private banks can create to meet all society's needs and aspirations

for a good and happy life so long as these loans are paid back or the lending institution has the capacity to absorb loan losses. This credit capacity is also, in theory, available to public banks like ATB, particularly lending against the full suite of assets (natural, human, social, and physical capital) of the province of Alberta.

POLICY IDEAS

The following are the key recommendations arising from the report. Given the significant regulatory changes introduced in the late 1990s, we believe there is no conflict between the lessons learned of political interference and the legislature's right to set broad policy over ATB, permitting ATB to operate independently, and then holding the minister to account for the policy outcomes.

- 1. Provide low-cost financing for Albertans.** Our analysis has shown that ATB can operate on the basis of recovering all of its current operating cost and offering an interest rate of approximately 2.50 per cent or less to legitimate Alberta borrowers without relying on a subsidy from the provincial government. We believe there is room for even greater operating cost efficiencies and lessons learned from the Bank of North Dakota, which operates at less than one per cent of its loan portfolio.
- 2. Finance social housing.** ATB could provide at-cost mortgages to low-income households, similar to Habitat for Humanity's zero-interest home equity mortgages.
- 3. Provide loans for Alberta's Climate Leadership Plan programs,** including renewable energy and energy efficiency programs. ATB could play a key strategic role in financing investment in Alberta's undercapitalized renewable energy capacity and energy efficiency opportunities. ATB's expertise in deposit-gathering, credit adjudication, and providing payment services is an ideal vehicle to facilitate the delivery of broad-based government programs to accelerate the movement away from fossil fuel generation and the emergence of a clean economy.
- 4. Hold Government of Alberta bonds.** Under current projections, the Alberta government will be borrowing upwards of \$53.6 billion over the next three fiscal years from financial markets. According to the 2018–19 budget, debt-servicing costs are forecast to reach \$2.286 billion by 2019–20, an amount nearly equivalent to the forecasted income \$2.315 billion from Alberta's investment funds. Two provincial agencies that have the *capability* of holding Alberta's

debt are ATB and the Alberta Investment Management Corporation (AIMCo). One potential role for ATB would be to buy the short-term paper of the Alberta government instead of federal securities. This could mean significant debt servicing cost savings to the province, would keep interest income inside the province, and such securities qualify as eligible collateral at the Bank of Canada.

5. **Provide agriculture loans.** Unfortunately—and incredibly—ATB no longer discloses its loans to the agriculture sector. Former disclosures reported \$1.4 billion in agriculture loans outstanding at March 31, 2011. At the end of March 2017, \$2.24 billion of agriculture loans were outstanding under the *Agriculture Financial Services Act*. Agriculture Financial Services Corporation could be integrated into ATB and made the pre-eminent lender to Alberta's agricultural community.
6. **Recapitalize ATB.** The government should eliminate ATB's fictitious notional capital counted as Tier 2 capital. Capital requirements would be simplified by requiring ATB to hold a minimum of 10 per cent of risk-weighted assets in core, or Tier 1, capital. Instead of the fiction of paying tax, this levy would be eliminated, as would the deposit guarantee fee. These changes would eliminate the circularity of payments between different parts of the Crown and would generate almost \$100 million in retained earnings every year that could support \$1 billion in new loans. The government should also consider converting the wholesale borrowing of \$1.12 billion to Tier 1 capital, which would give ATB ample capital to grow under a new and simplified regulatory capital regime.

Our report and the policy suggestions above are intended to stimulate an important conversation in Alberta and across Canada about the nature of banking, money, and finance in general. We believe money and its creation should be seen as a form of a public utility, whereby the creation of money through credit benefits the greatest number of people at the least possible cost to society.

ATB is our bank. If we want to control our economic destiny, we need to control the power to issue credit and invest in the assets of the people and natural assets of the province.

We welcome a healthy and vigorous debate about what we believe is a feasible and positive future for ATB: becoming a financial institution that is focused on meeting the social and economic needs of Alberta residents.

INTRODUCTION

Eighty years ago this September, Alberta Treasury Branches (ATB) opened its first branch in Rocky Mountain House. Except in 1996 and 1997, when the legislation governing ATB was overhauled, there has been no *public* debate on the appropriate role of this unique institution.

In 1997 wholesale amendments were made to the *Treasury Branches Act*, including a requirement that a motion be introduced into the Alberta legislature every five years to debate the continuance of ATB.¹ It is unclear why this debate did not occur in 2017, nor is it certain whether a review of ATB, as mandated by Section 19 of the *Alberta Public Agencies Governance Act*, is taking place.² Irrespective of this confusion, we believe it is timely and overdue for a serious public discussion on the role of ATB in Alberta's economy.

Unfortunately, past reviews of ATB have been *pro forma*, without an open invitation for public input. Through this report we invite the Government of Alberta to request public input on the questions of whether ATB should continue as a financial institution and what changes could be made to ATB's legislation to improve its effectiveness and support for Alberta's economic and social development.

The absence of debate is regrettable since ATB is a significant financial institution, with about \$50 billion in assets and another \$16.7 billion in assets under administration.³ This unique Alberta institution has over 200 branches and agencies throughout Alberta and employs more than 5,000 Albertans. It is a large lender to the oil sector, commercial real estate developers, the agricultural sector, small business, and to individual Albertans, who mortgage their homes to ATB or use ATB's various credit card and personal loan products. In short, ATB is a big deal for Alberta and its continuance should be a key priority for Alberta legislators and policymakers.

The purpose of this report is to help facilitate a much-needed discussion among Albertans on the future of ATB. The report begins by defining what ATB is, and traces the unique history of ATB from its creation by Alberta's Social Credit government, through its maturity under the Progressive Conservatives, to the current day when ATB is poised to play a potentially critical role in the evolution of the province's communities and economy. This history includes discussions during the 1990s of a possible privatization of ATB. We then examine the unique nature of what we call "public banking" in North America, before turning to the question of the role ATB can fulfill as a catalyst in moving Alberta forward into an economy driven by human capital, rather than natural resources. The report concludes by proposing some policy ideas—admittedly not fully formed—to transform

this venerable financial institution into a creative supplier of credit and other financial services to meet the basic needs of Albertans and to play a key role in Alberta's future economic and social development.

I. WHAT IS ATB?

ATB Financial, formerly known as Alberta Treasury Branches⁴ is, according to Note 1 of ATB's financial statements:

an Alberta-based financial services provider engaged in retail and commercial banking, credit card, digital banking, wealth management, and investment management services. Alberta Treasury Branches (ATB) is an agent of the Crown in right of Alberta and operates under the authority of the *Alberta Treasury Branches Act* (the *ATB Act*), Revised Statutes of Alberta, 2000, chapter A-37. Under the *ATB Act*, ATB was established as a provincial Crown corporation governed by a board of directors appointed by the Lieutenant Governor in Council. ... ATB is exempt from Canadian federal and Alberta provincial income taxes but pays an amount to the provincial government designed to be in lieu of such a charge.⁵

Despite the reference to retail and commercial banking, ATB is not actually a bank since banks in Canada can only be chartered by the federal government.⁶ Notwithstanding its provincial incorporation, ATB is one of the major financial institutions operating in Alberta. At the end of December 2017, the institution had net loans outstanding of \$43.2 billion, deposit liabilities of \$33.5 billion, and retained earnings of \$3.4 billion.⁷ ATB had assets under administration by its ATB Investor Services subsidiary of \$18.4 billion and total customers of 748,849, or about 17 per cent of the Alberta population.⁸

2. A SHORT HISTORY OF ATB

To fully appreciate the significance of ATB in Alberta's recent economic development, it is instructive to understand its origins.

In August 1935, during the Great Depression, Albertans elected a Social Credit government that was ostensibly committed to the creation of a new approach to government through the application of social credit theory.⁹ Attraction to social credit theory was fostered in an economic climate in which banks were foreclosing on farmers and small businesses and closing branches throughout Alberta (and Western Canada). The banks were viewed as a malevolent power forcing foreclosures and undue distress in the farming and small business communities. Farmers, many of whom were recent immigrants from Europe or central and eastern Canada, had borrowed heavily to finance their operations when grain prices rose in the 1920s.

After several years of legislative initiatives which were frustrated by judicial decisions and federal government opposition (through the office of the Lieutenant Governor), including rejection by the federal government of a bank license for the province, the Alberta government settled on an ingenious way to deliver financial services to Albertans.¹⁰

Under its "interim program," two orders in council were passed under the authority of the *Treasury Department Act* to establish "branches of the Provincial Treasury" in Alberta—hence the name Alberta Treasury Branches. A sum of \$200,000 was appropriated by special warrant to finance the establishment of these branches, and the first branch was opened in Rocky Mountain House on September 29, 1938.

Order in Council 1269/38 of October 1938 established a "transfer voucher" system to tackle the vexing question of how to structure a payments system that would be accepted by consumers, civil servants, merchants, municipalities, and banks.¹¹ A system of bonuses payable to depositors encouraged Albertans and Alberta businesses to support the "interim program."¹² A key component of the program was to encourage the purchase of Alberta-made goods. A three per cent "consumer bonus" was designed to stimulate the purchase of Alberta-made goods, to increase purchasing power, and to expand the usage of an Alberta medium of exchange.¹³ By 1940, 7,125 merchants were registered in the interim program, and by 1942 there were 34,000 voucher accounts operating.¹⁴

Albertans responded positively to a new alternative source of depositing funds, with deposits growing from \$1.3 million in March 1940 to \$4.9 million in March 1943. In an effort to provide banking facilities in remote areas of the province, ATB agencies were established that could operate out of grocery stores, gas bars, or insurance agencies.¹⁵ ATB still operates 143 agencies in remote rural communities, such as Tilley, Newbrook, Peers, and Galahad.

The Treasury Branches were not initially authorized to lend money.¹⁶ The lending of money began in 1941, which required considerable thought as to the appropriate level of reserves necessary to support this new activity.¹⁷ Lending authority was highly centralized under ATB's superintendent and a loans committee chaired by the superintendent.¹⁸ By 1950, ATB had a total of \$10.6 million of loans outstanding, mainly to commercial, industrial, and agricultural borrowers on the security of tangible assets such as land.¹⁹

In 1943, after the death of Premier William Aberhart, ATB was given an additional mandate to be, in effect, service centres for the government, including "application and licensing agencies for government departments, government information bureaus and estate service centres."²⁰ ATB's first superintendent, A.K. Olive, had to balance political considerations with operational ones, namely promoting the interim program, economic development, agency and branch locations, and personnel appointments. Over time, he obtained the trust of Premier Ernest Manning, who succeeded Aberhart, and began limiting party involvement in the operations of the branches and agencies, but not Manning's influence.²¹

ATB was supposed to operate independently outside of political influence and direction. As the Treasury Branches sought to establish credibility with Albertans, a shift took place in the desire to win business from merchants to encourage the purchasing power of business, not merely small consumers.²² In the early years, the government and ATB worked assiduously to portray ATB as an orthodox, sound financial institution lending money to creditworthy customers without political interference. This was patently untrue, as research by Robert Hesketh shows.²³

Table 1. Terms of Superintendent/President and CEO of ATB

Superintendent/President and CEO	Term
A.K. Olive (Acting, 1939–1949)	1938–1956
C.G. Davey	1956–1972
Fred Sparrow	1972–1982
R.O. Holgate	1982–1985
A.O. Bray	1985–1994
E.S. Leahy (Acting)	1994–1996
Paul Haggis	1996–2001
Robert Normand	2001–2007
Dave Mowat	2007–2018
Curtis Strange	2018–present ²⁴

POLITICAL LENDING

The Executive Council approved a loan to be advanced by ATB to Lassiter's Limited to clear land for returning military veterans.²⁵ According to Hesketh, ATB also practiced "pyramiding,"²⁶ which was the practice of extending loans to business borrowers who could not repay loans and who were viewed to have importance in some sector or region of the Alberta economy. This approach to lending was also consistent with the view of advancing more "purchasing power" to the business, consistent with social credit principles.²⁷

By the late 1940s, Superintendent Olive had been heavily criticized by Provincial Auditor Keith Huckvale for approving large loans without the approval of the Loans Committee. These loans often were to industrial concerns and members of the Loans Committee began to balk, elevating disputes to be resolved by Premier (and Treasurer²⁸) Manning, who usually supported Olive and the borrower. Huckvale's concerns also touched on doubtful loan accounts and ATB's inclination to be lenient when collecting arrears.²⁹

The road-building scandal that became a *cause celebre* during the 1955 election campaign essentially amounted to a form of province-building circa 1950. Not only was ATB lending to major road builders (O'Sullivan, Sparling-Davis, and then to the Mannix group which eventually took over the former companies and their various subsidiaries) but also the Alberta Provincial Marketing Board (APMB) and the Alberta Industrial Corporation (AIC). These entities had been created to expand economic activity through financial support of Alberta business. This mandate meant that pressure was placed on ATB to loan money to businesses which the government's other organizations were supporting through loans or submissions for assistance to ministers or cabinet.³⁰

Equally problematic was the absence of legislative oversight of ATB by the Public Accounts Committee. Only twice, in 1943 and 1948 (before scandal emerged in 1955), did opposition members have the ability to question the treasurer and premier on the operations of the branches.³¹

By the end of 1952, Sparling-Davis and its associated companies had liabilities of about \$4.7 million, mainly to ATB, but also to other branches of the Alberta government. The Alberta government had finally reached the end of its tether with Sparling-Davis but wanted to avoid the embarrassing revelations of its collective failure to professionally manage the credit to Sparling-Davis and its connected companies. Fred Mannix & Co. became the white knight to rescue the government (and conceal the fiasco at ATB, AIC, and the Marketing Board). In 1953, Sparling-Davis and its myriad companies were acquired by Mannix in a deal that greatly benefited Mannix, as Sparling-Davis was being squeezed by both ATB and the Marketing Board.³² By March 1954, the Sparling-Davis loans totaled \$4.5 million, or over 20 per cent of ATB's loans of \$21.5 million!³³

Manning was forced to call an election in June 1955 to manage the emerging scandals involving provincial jails, provincial buildings, and ATB.³⁴ During the election, the superintendent became directly involved by writing a letter to Manning denying, and damning, opposition charges of partisan pressure and that Social Credit MLA loans had encountered repayment difficulties.³⁵

On the last day of the 1955 election campaign—after unremitting questions about the O'Sullivan and Sparling-Davis contracts and MLA loans with ATB—Manning reluctantly announced he would appoint a Royal Commission to examine the allegations. The Royal Commission's terms of reference were narrow and its government appointees were reluctant to expand the mandate where questions remained.³⁶ Predictably the commission concluded that, based on the evidence presented and limited terms of reference, no preference was given to roadbuilders with ATB loans.³⁷ Hesketh provides conclusive documentation which supports concerns of federal regulators and politicians that provincially owned banks could be run on the basis of political advantage, as opposed to, commercial purposes.³⁸

Social Credit's significant election losses—its share of the popular vote fell by 10 per cent and the party lost 16 seats—meant that Manning's cabinet had been cleared of many of its diehard Social Credit members, including Lucien Maynard and C.E. Gerhart. These departures were timely, as Manning's new treasurer, A.E. Hinman, was determined to bring change to ATB and move away from the “purchasing power” notions of ATB lending policies.³⁹ The reserve for loan losses was buttressed through the late 1950s and modest growth in loans and deposits unfolded.

In 1967, following the report of the Royal Commission on Banking and Finance (the Porter Commission), which recommended the establishment of a deposit insurance scheme for Canadian banks, *The Treasury Branches Deposits Guarantee Act*⁴⁰ was introduced to guarantee the repayment of all deposits by the Province of Alberta. Even though ATB was a division of the Treasury Department and part of the Crown in right of Alberta, it was deemed advisable to amend the act to comfort large depositors that the government stood behind ATB.

ATB EXPANDS

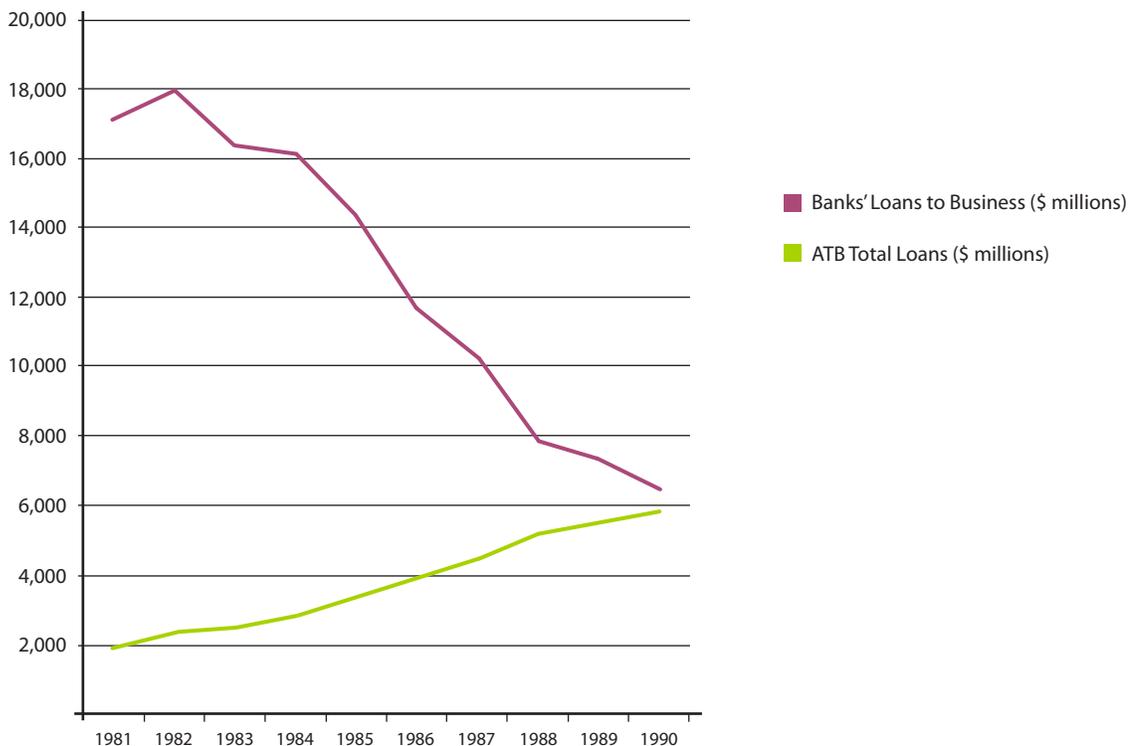
While ATB accumulated about \$1 million in losses by 1950, as Alberta's economy improved and as ATB became more efficient, \$68.8 million in "remittances" were made to the Government of Alberta between 1964 and 1982.⁴¹ By 1980, ATB had 113 branches and 99 agencies operating throughout Alberta.

In the highly favourable economic environment of a two-decade-long period of unprecedented growth in the oil and gas sector fuelling the province, total loans by ATB grew from \$10.6 million in 1950 to \$1.9 billion in 1981. By the beginning of the 1980s, ATB was a fully integrated deposit-taking financial institution and had become a direct clearer with the Bank of Canada.

However, by the mid-1980s, a full-scale credit contraction ensued. While the chartered banks reduced credit in Alberta over the 1981–1990 period, ATB grew its loan book throughout the period (see Chart 1). As a result, ATB gained credibility and support from many in Alberta's business community on the basis that ATB was locally based and would not withdraw credit capriciously. Indeed, "Albertans investing in Alberta" was a key slogan for ATB at that time. As we shall discover, this philosophy was a double-edged sword.

Under Superintendent Al Bray, ATB seemed to weather the financial storm better than its counterparts in Alberta. Clearly, the creditworthiness of the Alberta government, with its high credit rating, meant that ATB could operate without capital and with leverage ratios of about 50 times its retained earnings. During the 1980s, many deposit-taking institutions with geographic operations focused in Alberta failed.⁴²

Chart 1. ATB Loans and Chartered Banks' Alberta Business Loans, 1980–1990



Sources: ATB *Annual Reports* 1980–1990, Bank of Canada *Statistical Review*, provincial breakdown of banks' assets and liabilities, various years.

In 1990, under Superintendent Al Bray, ATB introduced “Any Time Banking,” which enabled customers with a touch-tone phone to carry out “banking” transactions.⁴³ In December 1992, with the election of Ralph Klein as leader of the Progressive Conservative (PC) party and premier, a new approach to government was taken. Klein’s “getting out of the business of business” was a direct reversal of former-premier Don Getty’s government involvement in “choosing winners and losers.”

THE WEM SCANDAL

However, soon after Klein took office, the refinancing of West Edmonton Mall (WEM) was taking place. ATB had been a mortgagee of a later phase of the mall, with an exposure of approximately \$55 million. The lead lender to the mall was Gentra, which was responsible for the large, problematic commercial mortgages formerly held by the Royal Trust Corporation (which had been absorbed by the Royal Bank of Canada). Gentra supposedly took an aggressive approach to the mall’s refinancing.⁴⁴ The Ghermezian family, who controlled the mall, approached the provincial cabinet for assistance in maintaining control over its major asset.^{45,46}

Subsequent to this approach, in its March 31, 1995 financial statements ATB reported an increase of guarantees from \$124 million to over \$475 million.⁴⁷ Controversy swirled around ATB when this information became public, with suspicion quickly focusing on West Edmonton Mall's financing difficulties. Scrutiny was particularly intense in the legislative assembly as the government had introduced legislation prohibiting the giving of provincial guarantees without the consent of the assembly.⁴⁸ ATB, which had heretofore not been a focus of opposition questioning, became a *cause celebre* as allegations of political interference were brought against the government. Much attention was focused on the exchanges between Liberal Party Opposition finance critic Mike Percy and Treasurer Jim Dinning over the mall's finances.⁴⁹

In 1998, the auditor general recommended a tightening up on "connected accounts,"⁵⁰ noting that:

To protect Alberta Treasury Branches' security position and minimize risk of loss on connected loan accounts, loans should be reviewed for adequacy of security and cash flow prior to approving connected loan account applications. It is particularly important when a number of inter-company purchase or sale transactions occur or where one company generates the income and cash flow for all loans, and in substance, all companies operate as a single economic unit within the connection.⁵¹

Monitoring of guarantees was also important to ensure that assets of related companies were properly secured. Consolidated financial statements were also necessary to ensure a full understanding of the corporate enterprise borrowing depositors' money. This comment is eerily reminiscent of the problems ATB encountered 40 years earlier with the Mannix, Sparling-Davis and O'Sullivan companies. It also underlines the importance of having competent lenders, credit analysts, legal departments, and proper corporate governance.

REBUILD OR PRIVATIZE?

As these controversies unfolded, pressures began building to sell ATB. Klein's mantra of "getting government out of the business of business" certainly applied to ATB, which operated in direct competition to federal banks and provincially regulated credit unions. In response, Provincial Treasurer Jim Dinning invited Gordon Flynn, a prominent Edmonton tax lawyer, to undertake a high level study of ATB.⁵² Flynn recommended a three-stage process to modernize ATB by: 1) creating an audit committee, an advisory committee, and, ultimately, a corporate board to guide its operations; 2) amending legislation to give ATB powers commensurate with other financial institutions, remedy its capital deficiency, and potentially establish it as a provincial Crown corporation; and 3) possibly implement partial or full privatization in stage three.⁵³ Flynn's report also recommended that ATB's mission statement include operating "on a cost conscious, profit-motivated basis while giving fair value to customers."⁵⁴

Flynn's report was referred to a working group chaired by former federal finance minister Don Mazankowski.⁵⁵ Within two months the group reported general agreement with Flynn. Key findings were:

1. The government should articulate public policy goals for ATB and measure and benchmark its performance against those goals;
2. ATB should operate at arms-length from the provincial government, particularly in the areas of human resources, systems, and telecommunications;
3. ATB requires a board of directors to direct and oversee its operations;
4. ATB should operate on a "level playing field" with respect to its private sector competitors;
5. ATB powers should be modernized to allow it to compete with other financial institutions—specifically with respect to capital requirements, capital taxes, and deposit insurance;
6. The entry into new financial services and products should be considered on a "business case" basis;
7. ATB could deliver government programs on a profit basis at reduced costs to the government;
8. ATB should operate on a "cost conscious, profit-motivated basis;" and
9. ATB should be subject to an accountability regime equivalent to that of a private sector financial institution.⁵⁶

The working group also recommended an independent process involving human resources consulting firm for board appointments, viz., that appointments be "based on merit and reflect a variety of expertise and viewpoints. Appointments must not represent special interests."⁵⁷

Treasurer Dinning took quick legislative action, and on May 17, 1995 the *Treasury Branches Amendment Act* received royal assent. The legislation created a board of directors and an audit committee of the board of directors.⁵⁸ It was announced that the acting superintendent would retire and a wide external search for a new superintendent would be undertaken through a process controlled by the new board.⁵⁹ In September 1996, a new superintendent, Paul Haggis, was appointed by an order in council.⁶⁰ Haggis, the former chief operating officer of Metropolitan Life, possessed considerable private sector experience in banking, treasury, and insurance.

Coincident with the appointment of the board, Dinning wrote Marshall Williams, the new board chair, to provide policy direction to the board. The letter, which was made public, was largely based on the foundational principles from the Flynn report and the Mazankowski working group. ATB was to “operate independently” on a “commercial basis” with the aim of “optimizing profit.” ATB was to keep its customer information confidential.⁶¹

In a presentation to the annual convention of the Progressive Conservative Association of Alberta in March 1996, Dinning urged ATB to “concentrate on the little league endeavours rather than big league football and hockey teams.”⁶² While privatization was a part of the Conservatives’ agenda in these years, the new board chair, Marshall Williams, gave an interview conveying the board’s (and government’s) view that privatization was not in the cards, asking, “is it even realistic?”⁶³

After the passage of the act, speculation remained that ATB would be privatized given the government’s avowed desire to be “out of the business of being in business.”⁶⁴ CIBC Wood Gundy was commissioned to study the prospects of privatization.⁶⁵ However, ATB’s franchise was strong in rural communities of Alberta where the provincial Tories drew electoral strength. Internal polling and caucus discussion led to a declaration that ATB’s organization would be strengthened through an arms-length board of directors which would carry out a business plan supported by the government. In 1997, after caucus discussions, Stockwell Day, the new provincial treasurer, introduced the *Alberta Treasury Branches Act* and announced that ATB was not to be privatized.⁶⁶

In October 1997, the *Alberta Treasury Branches Act* was proclaimed, repealing the *Treasury Branches Act* and, *inter alia*, abolishing the position of the superintendent and creating a chief executive officer position appointed by the provincial cabinet on the recommendation of the board; allowing ATB to establish subsidiaries in securities, trust, and investment management; establishing a capital adequacy regime; prudent investment standards; and related party (self-dealing) rules.⁶⁷ The legislation was informed by legislative initiatives and federal-provincial “policy harmonization” in the financial services sector taking place at that time.

Under the leadership of Haggis, the branch network was rationalized. Early in 1997, a number of senior executives left ATB and a number of new executives, some of whom who had worked with Haggis at Metropolitan Trust in Edmonton, came on board. A key decision was to outsource information technology to IBM, which would have significant ramifications a decade later when ATB began to replace its legacy banking system.

THE WEM SCANDAL CONTINUES

On August 25, 1998, ATB launched a lawsuit against the owners of WEM and others seeking to set the refinancing agreements aside and to have the court appoint an interim receiver-manager to manage the mall.^{68,69}

Counterclaims were filed against ATB in December 1998 and January 1999 by WEM and “others,” including the former acting superintendent Elmer Leahy. Leahy and companies controlled by Leahy, it was subsequently alleged by ATB, had received USD \$250,000 from an Israeli bank and \$70,500 from an intermediary to facilitate the refinancing of WEM.⁷⁰ The prospect of privatization with litigation overhanging the process was not something the government wished to entertain, as investment dealers underwriting an issue would discount the price of the shares given the uncertainty of a massive lawsuit.

With privatization no longer in the cards, Haggis left for ManuLife Financial at the end of his five-year contract. Haggis was succeeded in 2001 by Bob Normand, an executive vice-president responsible for ATB’s branch network. Normand had worked in the banking industry for over 30 years, including a short stint with the Canadian Commercial Bank. A key asset of Normand’s was his branch and corporate relationship management experience. One of the main challenges he inherited was the continuing litigation involving West Edmonton Mall. The litigation was settled out of court with the announcement on Christmas Eve 2002.⁷¹

Under Normand, ATB expanded its branch network in the burgeoning suburbs of Edmonton and Calgary and rehabilitated some of its older branches. A key organizational shift was to a “lines of business” model. Two new business lines were created—ATB Investor Services and Energy and Commercial banking—to complement the core retail, independent, and agricultural activities operating out of the branch network. Under Normand and with a strong economic revival in the province, profits rose steadily from \$161 million to \$274 million in 2007.

In May 2007, Dave Mowat, former president of VanCity Savings Credit Union, was appointed president. Mowat, who had previously worked with VanCity's venture capital unit and with the federal Business Development Bank, had extensive experience in retail customer service and in building an organizational brand that was seen as socially responsible and community-minded.

However, early in Mowat's tenure, over \$1.2 billion of non-bank sponsored asset-backed commercial paper (ABCP), which was owned by ATB and ATB Investor Services' money market fund, became illiquid as a result of the spreading financial crisis in US and European markets.⁷² Over the next three years, the restructuring of the paper and its valuation consumed executive and management resources at ATB.⁷³ In 2007–08, ATB took a special provision for credit loss of \$253 million, followed by another specific provision of \$225 million the following year. In his annual report of 2008–09 the auditor general hinted that inappropriate incentives may have led to inadequate scrutiny of these short-term securities.⁷⁴

Beginning in 2007, ATB began a massive project to overhaul its “Synergy banking system.” ATB selected SAP, Accenture, and IBM to carry out the “core” project. Originally budgeted for about \$160 million, by October 2010 the project's cost was estimated at \$320 million and was more than a year behind schedule.⁷⁵

In July 2009, Finance Minister Iris Evans announced a number of key initiatives designed to shore up ATB's balance sheet weakened from the ABCP imbroglio. The amendments to the *Alberta Treasury Branch Regulation* provided ATB with notional capital of \$600 million that would be paid down slowly against future earnings. In addition, the province permitted ATB to issue a deposit instrument that would count as capital for the capital adequacy test. These measures allowed the government to avoid capitalizing ATB properly when its fiscal position had been weakened by a significant decline in oil royalties and a recession resulting from the global financial crisis. Most importantly, it gave ATB the ability to continue to grow at a time when the province's economy was weak.⁷⁶

One other feature of ATB in recent years has been its push to establish a unique brand through heavy marketing, community relations, and corporate social responsibility (CSR). ATB formed a relationship with the Edmonton Oil Kings, the Edmonton Fringe Festival and dozens of other high-profile Alberta organizations. It launched significant media buys in the *Globe and Mail* and on Alberta television to promote its brand and services. Media advertising frequently features ATB personnel, including its CEO. Small business advertorials in the *Edmonton Journal* have also raised ATB's profile in the small business community. On the corporate social responsibility

front, ATB has partnered with Habitat for Humanity, Homeward Trust, and the Boyle Street Community Services.⁷⁷ The corporation has, for well over a decade, worked to support the two children's hospitals in Alberta through its "Teddy for a Toonie" campaign. In addition, ATB sponsors several financial literacy programs.⁷⁸ Under Mowat's leadership, ATB has also been exploring the role of financial technology ("fintech"), and in particular the place of blockchain technology and cryptocurrency in its operations.⁷⁹

In the Alberta provincial budget of October 2015, Finance Minister Joe Ceci announced a program to promote access to capital for small and medium-sized businesses. ATB was to receive \$1.5 billion in additional capital to boost lending "to help our province's entrepreneurs and job creators across the province. ... Lending decisions will be made and administered on the basis of sound banking practice by professionals, not politicians."⁸⁰ Under the new lending program, the government was to advance the capital through amending the Wholesale Borrowing Agreement with the province⁸¹ to increase its limit from \$5.5 billion to \$7 billion.⁸² The loan would be treated as "contingent capital" and added to the institution's capital base. This would allow ATB to lend on multiples of this "capital" injection.⁸³

One of the most striking features of ATB's recent financial evolution has been its shift from an agricultural and small business lending institution into commercial lending. In spite of a leading market share in independent business and agriculture, corporate lending had surpassed SME lending at ATB by 2004 under the lines of business model.⁸⁴ In 2014–15, over two-thirds of ATB's profits were derived from its commercial lending and deposit operations. From 2010 to 2015, commercial lending at ATB has more than doubled.⁸⁵

A related concern is the lack of reporting of industry concentration in its commercial and small business loan portfolio. This reporting in the management discussion and analysis section of the annual report was discontinued in 2008.⁸⁶ This breakdown is common and critical for financial institutions raising capital in public markets to inform investors of the loan exposure in specific sectors. This is especially important given Alberta's heavy exposure to the energy industry and customers employed in that sector and related sectors. Buried in its second quarter report to December 31, 2017, it is noted that "commercial real estate is the largest single industry segment at \$5.7 billion (March 31, 2017: commercial real estate \$5.2 billion)."⁸⁷ In contrast, federally regulated banks disclose granular detail by sector.⁸⁸

This lack of transparency at this time in the province's fiscal and economic history is highly problematic, as the present government struggles to remedy a dire financial position inherited from its predecessors.

LESSONS

The history of ATB provides a number of important lessons as the institution and government consider ATB's future direction. The first lesson is that concentration risk is a particular concern for financial institutions that are geographically limited in their activity.⁸⁹ As we have seen with regard to loans to roadbuilders in the 1950s, having too many eggs in one basket is dangerous for financial institutions. The loan guarantee to West Edmonton Mall is another example. Diversification in a loan portfolio is essential, but also crucial is diversification of the deposit base. Over-reliance on large wholesale depositors, who may withdraw funds overnight, necessitates highly sophisticated cash management practices. ATB has significantly more business and wholesale than consumer deposits. As noted above, weak disclosure of sectoral loan risk should be looked at by the government.

A second lesson is the importance of assuring the independence of executive management from political influence. ATB's first superintendent was directed to lend money to entities that were unprofitable and also indebted to other lending arms of the government. In the case of lending in the 1980s and early 1990s, there appeared to be a policy of lending to larger commercial borrowers facing difficulties from out-of-province creditors. While there has never been clear evidence of this policy through the Getty period and the early Klein era, the emergence of so many problematic loans in the 1990s suggests an unwritten understanding between political leaders and senior executive at ATB. Indeed, the legislative amendments made in 1997 attempted to strengthen ATB's operational independence from the government in two subtle ways. Firstly, a specific provision prohibited ATB from entering into any business transaction with the Crown unless it was a "fair market rate."⁹⁰ This would ensure that government would not take advantage of its position to compel ATB to deliver government programs at a loss. Secondly, under the *Freedom of Information and Protection of Privacy Act*, the definition of a "record" excluded all records "in the custody or control of a treasury branch other than a record that relates to a non-arm's length transaction between the Government of Alberta and another party."⁹¹ This provision protected ATB customers from having personal information passed on to the government. However, it also allowed the public to seek information where the government was directing ATB's relationship with a third party. This provision would theoretically allow the media to seek information on loans or guarantees of ATB directed by the government.

A third lesson is known as the "principal-agent" problem. ATB is legally an "agent of the Crown"⁹² and "may exercise its powers under this Act only as an agent of the Crown in right of Alberta." This legal arrangement permits an agent to "fill the shoes" of its principal to carry out statutorily defined activities. The *ATB Financial Act* is generally permissive, and ATB "has

the capacity and, subject to this Act and the regulations, the rights, powers and privileges of a natural person.”⁹³ This status allows ATB to exclusively contract within its mandate, thereby simplifying administrative and financial procedures. The literature on principal-agent states or theorizes that an agent may take on more risks than would the principal. This leads to behaviour rewarding to the agent, but may at the same time place the principal at financial risk, much like a guarantor of a debt. This may also work in the other direction, namely, a principal that does not want to act directly may use its agent to carry out certain activity “indirectly.” This issue is important as it relates to executive compensation and contributes to greater risk-taking by financial institutions that are ultimately bailed out by governments.

Finally, ATB’s reporting remains deficient in two respects. Firstly, there is a paucity of information concerning the sectoral distribution of its commercial loan book. Secondly, ATB has been a laggard in explaining its executive compensation.⁹⁴ In the Canadian banking sector, management circulars go on for 40 or more pages describing the compensation philosophy, peer group chosen, and the metrics by which bonuses are determined. Despite numerous recommendations in previous auditor general reports, ATB provides only a vague three-page summary.⁹⁵ In comparison with the Alberta Teachers’ Retirement Fund and the Alberta Investment Management Corporation, ATB’s disclosure is weak. Since the board of directors approves the annual report, including financial statements, this is suggestive of weak governance practices.

THE POSSIBILITY OF PRIVATIZATION

Part of the logic of the “sunset clause” in the *ATB Financial Act* is to require the legislative assembly to consider whether ATB should continue to exist. Previous debates in 2002, 2007, and 2012 have been uneventful, which is intended by ministers and corporate boards because controversy over a large financial institution’s longevity may be harmful to employees, owners, and customers.⁹⁶ The continuance of ATB is perhaps a rhetorical question in the same way as a sunset clause is for Canadian chartered banks. Practically, though, it is useful for both the Alberta government and ATB management and its board to have a periodic review of its legislation and regulation to ensure the currency of the institution’s powers, etc.

During the Klein government serious consideration was given to privatizing ATB, but the rural caucus and the litigation involving West Edmonton Mall doomed the effort. Canadian privatizations have generally been a boon to the investment bankers underwriting the initial public offering, initial shareholders, and senior management. Underwriters receive significant commissions; early shareholders normally see the value of their holding rise as inefficiencies are rooted out; and senior management are rewarded through share options. Examples of this include TELUS, Canadian National Railways, Capital Power, and Air Canada. Existing employees benefit, if they are not found redundant, as wages typically rise.

In ATB's case, its mandate requires it to provide access to financial services to all communities—meaning rural communities. Given the increasing move to automate interactions between consumers and financial institutions, Canadian banks will continue to prune their branch networks. Banks have become more adept at slowly closing branches throughout urban and rural Canada because they make it easier for their clients to interface electronically. A privatized ATB would likely close many of its uneconomic branches in rural Alberta. A privatized ATB would also likely need to be shielded against a possible takeover to assure it remains headquartered in Alberta. Such conditions and outcomes may preclude the case for privatization. Another key factor is whether a sale of ATB shares to the Alberta public would generate a handsome return to the province. ATB might sell for more than its book value of \$3.3 billion, but it's unclear given its poor efficiency ratio whether the premium over book value would be attractive to convince the current, or a future, government that it would be worth selling.

Furthermore, moving to a bank status would mean that the 100 per cent deposit guarantee would fall off. The blanket guarantee is of considerable value to ATB as it attracts large wholesale deposits to the government's AA credit rating. Canadian banks, particularly the Canadian Western Bank, have been concerned about ATB's competitive advantage. If ATB were privatized, the financial disclosure and due diligence on ATB's loan portfolio, the adequacy of its provisions, and the reporting on current and future executive compensation could be sensitive to the government, board, and executive management. Finally, the front-line staff at ATB are unionized. While it's not obvious this fact would be a major barrier to privatization, it presents another issue for future investors.⁹⁷

3. PUBLIC BANKING

Public Banks have unique comparative advantages over conventional banks. Table 2 compares the attributes of private banks, public banks, and credit unions. The last column identifies the unique attributes of ATB Financial, North America’s largest public bank.

Table 2. Comparison of Private Banks, Public Banks, Credit Unions, and ATB Financial

	Private Banks	Public Banks	Credit Unions	ATB Financial
Organizational structure	For-profit financial services business.	Non-profit, local-government-owned institution.	Not-primarily-for-profit, co-operative business financial institution.	Provincial-government-owned institution.
Shareholders / stakeholder-beneficiaries	Private shareholder ownership, some banks are publicly traded on stock markets.	State, provincial, or municipal government is principal shareholder.	Member-based and member-focused institution. A credit union is a cooperative, which means it is owned and operated by its members. Membership is subject to unique membership requirements.	As citizens, the population gets to share in both the risks and the benefits of a public bank. Albertans are not formally shareholders, but rather shared “care-holders” of total societal assets. No restrictions on being an account holder other than being a resident of the province of Alberta.
Services and rates	Market-competitive interest rates on savings and chequing accounts. Higher interest rates on loan products than other financial institutions.	Higher interest rates on savings accounts and certificates of deposit (CD). Lower interest rates on loan products and credit cards.	Higher interest rates on savings accounts and guaranteed investment certificates (GICs). Lower interest rates on loan products and credit cards.	Potentially higher interest rates on savings accounts and guaranteed investment certificates (GICs). Competitive and potentially lower interest rates on loan products and credit cards
Competitors	Compete with credit unions. Provide a full suite of financial services from deposit, chequing, and other accounts.	Do not compete with private banks because services are limited to deposits from state or municipal governments only.	Compete with private banks across a full suite of financial services.	Compete with private and other banks across a suite of financial services since they accept individual, business, and other organization deposits.
Taxes	Corporate and other business taxes payable on earnings before taxes.	Corporate and other business taxes payable on earnings before taxes.	Corporate and other business taxes payable on earnings before taxes.	ATB pays the Government of Alberta a levy in lieu of taxes.
Dividends	Dividend payments from net profits to equity shareholders.	Any net profits retained by the bank as equity.	Net profits shared with members of the cooperative as dividends.	Dividend payments from any residual net income retained as equity or paid as dividend to the Government of Alberta.

A public bank is one that is controlled and owned by public actors, namely the state or a government body, rather than by private investors. Public banking is common around the world, particularly in developing and newly developed countries. Globally, about 40 per cent of banks are publicly owned, and the countries with public banks were able to weather the credit crisis of 2007–08 with fewer detrimental impacts.⁹⁸

According to the US-based Public Banking Institute, public banking is distinguished from private banking in that its mandate begins with the public’s interest. Privately owned banks, by contrast, have shareholders who generally seek short-term profits as their highest priority. Public banks are able to reduce taxes within their jurisdictions, because their profits are returned to the general fund of the public entity. The costs of public projects

undertaken by governmental bodies are also greatly reduced, because public banks do not need to charge interest to themselves. Eliminating interest has been shown to reduce the lifetime cost of such projects by an average of 50 per cent.”⁹⁹

A public bank is, in essence, an extension of the government which created it, whether a state, municipal government, or First Nation. In theory, governments can borrow from their own public bank without interest charges or at-cost of creating the loan, as a bookkeeping entry. Because a public bank need not generate large profits to satisfy shareholder expectations of commercial banks (where profit margins are built into the interest rate terms on loans), the creation of credit and financial services can be made more affordable for citizens, saving millions in debt servicing costs. In other words, a public bank can be the source of low-cost credit to both the government and the citizens of a state, province, or nation. Public banks therefore have natural advantages.

Public banks can be prohibited from speculating in risky derivatives—as do commercial and investment banks—which may not be adequately regulated, as we saw with the 2007–08 global financial crisis. Further, because of the leverage of banks (which allows banks to lend out multiple times more than the capital of the bank), public banks can magnify the money the government can deploy for economic development, infrastructure investment, and other community assets. Depending on the nature of the bank's assets and deposit base, the entity could loan up to 10 times of the capital seeded by the government.

As a public bank ultimately backed by the assets of the province of Alberta and its taxing authority, the beauty of ATB Financial is that it can create money by issuing loans to households, farmers, businesses, and even to other governments (municipal) and the Government of Alberta itself (in principle) at a more competitive rate (low cost of capital) than commercial, publicly traded banks. Why? First, because a public bank can operate on a non-profit basis. Since its beneficiaries are the citizens of a province (Alberta in the case of ATB Financial) or state (North Dakota in the case of the Bank of North Dakota), it can simply operate on a cost-recovery basis. Second, in the case of ATB Financial, being a corporation wholly owned by the Government of Alberta means ATB Financial pays no corporate taxes.¹⁰⁰ Therefore, the only thing a public bank must ensure is that it covers all of its operating costs and has sufficient provision against loan losses or defaults by its customers.

Theoretically, a public bank does not need to charge the same interest rates on loans as other conventional banks if it is operating on a cost-recovery and loan-loss-risk management basis.

Table 3. Comparison of ATB Financial, Servus Credit Union, and Bank of North Dakota

	ATB Financial (2017)	Servus Credit Union (2017)	Bank of North Dakota (2017)
Loans (\$ millions)	40,811	13,676	4,909
Operating Costs (\$ millions)	1,044.4	307.2	31.0
Ratio of Operating Costs to Loans (%)	2.56%	2.25%	0.63%
Ratio of Provision for Loan Losses to Total Loans (%)	0.58%	0.10%	0.24%

Source: ATB Financial 2017 Annual Report, Servus Credit Union 2017 Consolidated Financial Statements, Bank of North Dakota 2017 Annual Report.

If that is the case, what did ATB spend on its operations in 2016–17 and what were its loan-loss provisions? According to its 2016–17 financial statements, ATB had a loan portfolio of \$40.81 billion, and operating costs were \$1.04 billion, or 2.56 per cent of the value of all loans. ATB had a provision for loan losses of \$235 million in 2016–17, or 0.58 per cent of average total loans.¹⁰¹ (It should be emphasized that ATB loan losses in 2017 were higher than normal due to recessionary conditions in Alberta.) Of ATB's total loans, 46.7 per cent were business loans, 36.6 per cent were mortgage loans, 16.2 per cent were personal loans (car loans, lines of credit, student loans), and the rest were credit card loans.¹⁰² Over 50 per cent (\$515 million) of ATB's operating costs were salaries and employee benefits.

By comparison, Servus Credit Union, Alberta's largest credit union, reported in 2017 (October 31 year-end) a loan portfolio of \$13.68 billion, and its operating costs were \$307.2 million, or 2.24 per cent of the value of total loans. Servus's provision for loan losses was 0.10 per cent of the value of loans. Servus was therefore more efficient both in terms of costs of loans and loan loss allowance costs.

The Bank of North Dakota (BND), North Dakota's public bank, was the most efficient in terms of costs and loan loss allowances. In 2017 the BND had loans of \$4.91 billion, and lower operating costs of only \$31 million, or a mere 0.63 per cent of total loans. Therefore, BND appears much more cost-competitive than both ATB Financial and Servus. BND's provision for loan losses was \$12 million, or only 0.24 per cent of total loans. That means BND's combined cost of money plus allowance for risk/losses was a mere 0.88 per cent of the value of money created in the form of loans.

How does ATB Financial compare with Canada's major commercial banks in terms of cost of operations, cost of loans, and loan loss allowances? The following table compares the Canadian retail operations of Canada's five major banks with ATB Financial, Servus Credit Union, and the Bank of North Dakota in terms of assets, loans, deposits, operating costs, total revenue, net income, return on equity, and provision for loan losses. The table also compares operating costs as a percentage of total loans, operating

costs as a percentage of revenue (efficiency ratio), and provision for credit or loan losses as a percentage of total loans. The information on the Canadian banks is strictly their personal and commercial banking business in Canada.

Table 4. Comparison of the Canadian Retail Operations of Canada's Five Largest Banks with ATB Financial, Servus Credit Union, and Bank of North Dakota

	TD \$ millions, 2017	RBC \$ millions, 2017	CIBC \$ millions, 2017	Bank of Montreal \$ millions, 2017	Scotiabank \$ millions, 2017	ATB Financial \$ millions, 2017	Servus Credit Union \$ millions, 2017	Bank of North Dakota USD \$ millions 2017
Assets	*	*	*	*	*	47,135	15,390	7,003
Loans	419,960	393,400	243,500	215,667	315,916	40,811	13,676	4,909
Liabilities: Deposits	419,209	326,100	162,900	152,492	233,260	33,928	12,560	4,605
Equity	14,434	16,933	3,763	N/A	17,824	3,147	1,424	825
Total Revenues	21,062	14,877	8,372	7,444	12,851	1,578	478	220
Operating Costs (Non-interest Expenses)	8,934	6,423	4,348	3,600	6,487	1,044	307	31
Net Income	6,525	5,571	2,420	2,512	4,064	151	82	145
Provision for Loan or Credit Losses	986	1,016	766	505	913	235	13.3	12
Return on Equity	45.2%	32.9%	64.3%	N/A	22.8%	4.8%	5.8%	17.6%
Ratio of Operating Costs to Loans	2.13%	1.63%	1.79%	1.67%	2.78%	2.56%	2.24%	0.63%
Loan Loss Allowance	0.23%	0.26%	0.31%	0.23%	0.39%	0.58%	0.10%	0.24%
Ratio of Operating Costs to Loans + Loan Loss Allowance	2.36%	1.89%	2.10%	1.90%	3.17%	3.13%	2.34%	0.88%
Leverage - Loans/Equity	29.1	23.2	64.7	N/A	17.7	13.0	9.6	6.0
Loan to Deposit Ratio	1.00	1.21	1.49	1.41	1.35	1.20	1.09	1.07

* Assets for Canada's largest banks are reported on a global operations basis only.

N/A: data not available

Sources: Annual reports and financial statements for TD, RBC, CIBC, Bank of Montreal, Scotiabank, ATB Financial, Servus Credit Union, and Bank of North Dakota are all for the 2017 year end; all annual reports were accessed online May 28, 2018. As Canadian banks' Canadian operations are not organized identically, these comparisons are at a high level and should be used with caution. Also some banks report numbers at year end, while other numbers are averages.

Compared to all of the major Canadian banks, as well as to ATB and Servus, the Bank of North Dakota was the most cost-efficient, with the lowest ratio of operating costs to loans of 0.63 per cent. However, the BND operates only a single head office and neither takes deposits nor does it operate a branch network.

The return on equity (ROE) for the Canadian commercial banks tend to be much higher, ranging from 22.8 per cent for Scotiabank to 64.3 per cent for CIBC compared with ATB's 4.8 per cent, Servus Credit Union's 5.8 per cent, and BND's 17.6 per cent.

Since ATB Financial does not technically pay taxes¹⁰³ and is not expected to generate the same profits as publicly traded commercial banks, it could operate with a significant competitive advantage as a low-cost-of-loan capital provider, with interest costs at considerably less than the prime rate. In addition, like other public banks, it can help to finance strategic community asset development by lowering the cost of capital/money for all community-asset and local-business development. The only goal is to ensure that the costs of operating the bank plus a loan-loss allowance is covered by the interest paid on the loans.

This reality challenges the premise of private ownership of banking institutions, which states that it is important that banks maintain a healthy spread between the interest charged on loans and the interest paid on deposits. Our argument is that so long as all operating costs and loan losses are managed, then a public bank can operate sustainably and at a competitive advantage to commercial banks.

A public bank, like any business, incurs legitimate operating costs which need to be recovered through fees. But the net benefit to the customers—or in the case of ATB, the citizens of the ATB—would be significant savings in the hours of labour required to pay for the interest on mortgages and other loans. In principle, ATB Financial is a community financial institution to the extent that every Albertan is entitled to an account since ATB Financial is a collective financial asset having the power to create loans to finance the well-being aspirations of our economy.

4. HOW BANKS CREATE MONEY

Most people have no idea where the majority of our money originates. The former Bank of Canada Governor Graham Towers noted in 1939 that “Each and every time a bank makes a loan, new bank credit is created—new deposits—brand new money.”¹⁰⁴ The late economist John Kenneth Galbraith noted in his 1975 book, *Money: Whence It Came, Where It Went*, “The process by which banks create money is so simple the mind is repelled. Where something so important is involved, a deeper mystery seems only decent.”¹⁰⁵

Money is conventionally defined in economics textbooks as currency, coins, bank deposits (savings and chequing), deposits of banks with the central bank, and gold and silver.¹⁰⁶ Money and banking are interrelated and are both the most misunderstood, and at the same time, studied, economic activities. Money is about trust in the issuing authority, normally national central banks. Money has several functions, but essentially is a vehicle where the holder of money can exchange “it” (currency, coins, cheques, commercial paper) for goods or services. Historically, banking was linked to money because the earliest private banks issued their own money via their banknotes. Over time, bank failures taught governments that some degree of oversight was required to prevent abuse by the bank directors towards depositors.¹⁰⁷

One common view of banking is that banks act as intermediaries between savers and borrowers. This view suggests that a bank can only lend money from savers or from its capital base, which is not entirely accurate. Bankers can and do make loans by, in effect, loaning the borrower a deposit which forms the offsetting liability to the loan.¹⁰⁸ Once the borrower uses these deposits by transferring value through cheques or other transfer mechanisms, the lending bank will be presented with the cheque and require funds to be transferred to the other financial institution. Obviously, not all funds borrowed via deposit will leave the institutions, but there are obvious limits by which the lending institution cannot “lend its brains out.” This is true for other institutions. In general, so long as the economy is expanding, the loans made are prudent, and an institution’s loans are widely disbursed, commercial or public banks can expand lending themselves.

In March 2014, the Bank of England released a report called “Money Creation in the Modern Economy,” where it confirmed that commercial banks create the vast majority of society’s money supply:

Commercial [i.e. high-street] banks create money, in the form of bank deposits, by making new loans. When a bank makes a loan, for example to someone taking out a mortgage to buy a house, it does not typically do so by giving them thousands of pounds worth of banknotes. Instead, it credits their bank account with a bank deposit of the size of the mortgage. At that moment, new money is created. And in the modern economy, those bank deposits are mostly created by commercial banks themselves.¹⁰⁹

This means that every new loan that a bank makes creates new money. Sir Mervyn King, the governor of the Bank of England from 2003–2013, recently confirmed this point to a conference of business people, saying, “When banks extend loans to their customers, they create money by crediting their customers’ accounts.”¹¹⁰

Martin Wolf, who was a member of the UK Independent Commission on Banking and chief economics commentator for the *Financial Times*, put it bluntly, writing in the *Financial Times*, “the essence of the contemporary monetary system is the creation of money, out of nothing, by private banks’ often foolish lending.”¹¹¹ Wolf goes on to explain that:

Money is a social invention, indeed among the most important of all social inventions. At present the right to create money has been handed over to the private businesses we call banks. But this is not the only way we could create money and, as recent experience suggests, it may be far from the best one.¹¹²

In the US, the amount of total money created primarily by private banks has increased an average of 8.2 per cent over the past 40 years (1976–2016). The total amount of outstanding debt (households, business, governments, domestic financial sectors, and foreign) as of the second quarter of 2017 exceeds USD \$68.017 trillion.¹¹³ Only \$1.4 trillion dollars is cash or currency created by the US government, meaning only 2.2 per cent of the total US money supply is paper currency created free of charge by the government. This means that there is theoretically no limit to how much new “debt-money” private banks can create to meet all of society’s needs and aspirations for a good and happy life so long as the loans are paid back or the lending institution has the capacity to absorb loan losses. However, in reality, there are limits. Firstly, if too much money is issued it can lead to inflation, and secondly, the central bank and bank regulators set certain rules that limit the ability of banks to lend by rules on capital (stress tests, complex capital

adequacy rules) and liquidity (fractional reserves). The practical challenge for central banks is to oversee the creation of just enough new money through loans that leverage the real wealth (assets) of an economy for a genuinely sustainable economy.

In sum, the vast majority—97 per cent—of our modern money supply is created when private banks issue loans; only about three per cent is created by central banks or national governments as cash, minted coinage, printed money, or currency. Bank loans are bookkeeping entries in which brand-new money is created secured against collateral-grade tangible assets (real property or securities such as investment-grade bonds), the income of loan recipients, or receivables of an enterprise. The money that private banks create isn't the paper money that bears the logo of the Bank of Canada or the Bank of England, it's the electronic deposit money that flashes up on the ATM or online bank account when you check your balance.

WHAT IS THE DIFFERENCE BETWEEN THE BANK OF CANADA AND ATB?

ATB is a commercial “bank” that deals with businesses, individuals, the province, and some municipal governments. The Bank of Canada deals only with chartered banks, other entities like ATB that access the payments and settlements systems, and both the federal and provincial governments.¹¹⁴ The Bank of Canada conducts monetary policy for Canada. ATB does not set interest rates—it follows the lead of the Bank of Canada when it changes interest rates for its customers. The central bank is the fiscal agent for the Government of Canada, while ATB has no such role for the Alberta government. The Bank of Canada is also the “lender of last resort” for banks and other members of the payments system. When these members get into financial difficulty, the Bank of Canada would lend to the institution with appropriate pledging of security. This took place in the 1980s when the Canadian Commercial Bank became troubled.

5. ATB AND FINANCIAL POWERS

Alberta Treasury Branches operated largely without formal regulatory oversight for nearly 60 years. Regulated banks normally must meet capital requirements to operate; capital is a buffer to cushion losses when a bank is losing money, usually because borrowers fail to repay loans. Prior to 1997, ATB had no capital requirement, and effectively operated with infinite leverage (multiple of assets to capital) during the traumatic 1980s and scandal-plagued 1990s. ATB could operate in this manner because it was not a federally regulated financial institution, and because deposits were backstopped by the Government of Alberta, which still had a relatively strong credit rating.

Using the conventional definition of money (currency and deposits), ATB has created \$34.6 billion of “money” (\$1.1 billion in cash and deposits with other financial institutions and \$33.5 billion in personal, business, and other deposits).¹¹⁵ ATB’s balance sheet also reveals that the institution had total loans outstanding (before allowance for loan losses) of \$43.7 billion. All this “money” is backstopped by retained earnings (or capital) of about \$3.4 billion. Retained earnings represents the book value of the Government of Alberta’s investment in ATB since inception. Thus, for every dollar in equity or capital, ATB has “created” about \$12.80 in loans to Albertans. This is known as leverage, or a capital-to-assets ratio.

There is no magic to this ratio. So long as there is trust that a financial institution is able to meet its liabilities when due, the leverage ratio could be higher. But trust does not mean the trust of ordinary, “unsophisticated” depositors, but rather the trust of credit rating agencies, large corporate depositors, and other financial institutions that compete with ATB. Trust is especially critical because competitors that do not like what their competitors are doing could, under certain circumstances, collaborate to undermine trust in a rival institution.

During financial crises, banks have access to the “lender of last resort facilities” at the central bank, in the event of a run on the assets of the bank concerned. Under the Bank of Canada’s emergency lending assistance policy, which was revised in 2016, the Bank of Canada can make collateralized loans to members of the Canadian Payments Association (which includes ATB).¹¹⁶ For provincially regulated financial institutions, eligibility requirements include: 1) an indemnity from the province, 2) a high degree of confidence by the Bank of Canada that a troubled provincial institution will be returned to long-term viability, and 3) that the disorderly failure of an institution would have “significant adverse consequences for the broader financial system or economy.” It is unknown whether an indemnity agreement exists with respect to ATB between Canada’s central bank and the Government of Alberta.

This arrangement matters because the proposals discussed in the next section would radically alter the playing field between Canada's federally chartered banks and ATB. Bank opposition would likely manifest itself in pressure on the finance ministers of Canada and Alberta to resist efforts to exploit the potential available to meet social needs through publicly owned bank-like intermediaries.

Since there is no real science to a capital-to-assets ratio—as the 2007–08 financial crisis proved—the question becomes how to grow ATB's assets in a sustainable way and, over time, strengthen the province's credit rating. A starting point would be to normalize ATB's balance sheet and treatment of capital to recognize the reality that only retained earnings, or core capital, are ultimately the strongest type of capital to support a deposit-taking institution (we discuss this further in recommendation six in the next section).

THE NATURE OF LENDING ACTIVITIES

Lending, whether by banks, individuals, factoring companies, or corporations, is an exchange of value. The debtor transfers the right to property or future streams of income in exchange for money to be employed in the present. The creditor obtains, through a security agreement, the right to take legal action against the debtor if the debtor fails to repay the loan.¹¹⁷ Lending is normally on the value of the security pledged (title to a residence or real property) or to the cash flow of the debtor.

Credit adjudication is a highly valued function within a lending institution because it involves the interdisciplinary skills of psychologist, economist, lawyer, and financial analyst. Lending institutions have policies that determine what percentage the organization will advance against the pledged collateral (e.g., 80 per cent of the assessed value of a principal residence or 50 per cent of the estimated worth of oil reserves). The credit function is generally automated for consumer and small-business lending based on a borrowers' historical repayment history.

Financial institutions that are permitted to take deposits from the public normally require that borrowers maintain their deposit account(s) with the institution. This allows the institution to “cross-sell” other products like credit cards or wealth management services, but also enables the institution to monitor the cash flow of the borrower. Since the institution advances the loan funds through a deposit in the name of the borrower, it has obtained both the deposit liabilities (an asset of the borrower) and the loan (an asset of the institution). The borrower can draw upon the line of credit to pay bills, consume durables, and to pay off other loans. The institution has at its disposal significant financial information with which to assess on an ongoing basis the creditworthiness of the borrower.

Thus, banking institutions perform not only a crucial economic function, but also a vital social function as they allocate credit to “deserving” or credit-worthy customers, viz., customers which repay their loans when due. In other words, the “banker” discriminates between good credits and bad.¹¹⁸ This makes banking a social as well as an economic function.

6. POLICY IDEAS AND CONCLUSION

The following are policy ideas we believe are worth exploring as a means of exploiting ATB's pre-eminent position as the leading public bank in North America.

Before proceeding, setting the context of ATB within the Alberta economic and governmental context is necessary.

At the midpoint of 2018, the Alberta economy is recovering but is no longer the “engine of growth” for the Canadian economy it once was. Secondly, Alberta's government is facing some very difficult fiscal choices. Projected deficits for 2018–19 and the following three fiscal years aggregate \$32.8 billion, and net financial assets of the Government of Alberta are projected to fall to negative \$48.2 billion by March 2021.¹¹⁹

If ATB is to undertake meaningful activities to enhance the financial and economic situation of the province, it must do so within the context of an understanding of what is feasible within the existing financial and economic system. As Moody's Investors Services has previously observed, the performance and financial exposure of ATB is intricately related to the credit rating of the province.¹²⁰ Thus, any expanded powers of ATB must be carried out with a view to not weakening the overall credit profile of the province.

Secondly, the proposals below may appear to conflict with a critical lesson learned from the first 80 years of ATB's existence; namely the importance of the separation of politics from credit adjudication. While the following policy recommendations provide general and strategic direction to the institution, they are not intended to impair its operational independence. This underpinning is imperative to the proposals we are advancing. Should there be any attempt by ministers, MLAs, ministerial aides, or senior public servants to direct loans to individuals or businesses, or to recommend that ATB hire consultants or individuals, the strategic proposals advanced will be immediately undermined.

The principle of operating at arms-length is enshrined in ATB's “Mandate and Roles” document.¹²¹ The current document can be supplemented by ensuring that ATB's current code of conduct ensures that all directors, employees, and even unionized employees not be allowed to participate in any political activity, including making donations or attending political events like fundraisers. To ensure that there are no repeats of earlier scandals, ATB's code of conduct¹²² must be corrected to include provisions from the public service code of conduct pertaining to political activity. Such a code would obviously apply to the board of directors as well.

The strict separation of politics from credit adjudication is akin to the independence of the Bank of Canada, where a disagreement on monetary policy requires the minister of finance, through the cabinet, to direct a change in monetary policy.¹²³ This has never occurred, signalling that the bank has operated independently in its monetary policymaking.

In our policy proposals, we reaffirm that the provincial government, as owner of ATB, has the responsibility to set broad policy objectives through legislation, regulation, or public policy statements for the institution. Once those policy directions are set, ATB's board and management must be vigilant in assuring its borrowers, depositors, and the general public that it is adjudicating credit in an objective, professional, and non-partisan manner. With these measures, we feel confident that ATB can carry out the policy objectives laid out below while maintaining the trust of all Albertans and capital market participants.

- 1. Provide low-cost financing for Albertans.** Our analysis has shown that ATB can operate on the basis of offering an interest rate of approximately 2.50 per cent to legitimate Alberta borrowers without relying on a subsidy from the provincial government.¹²⁴

As shown in Table 4 on page 27, the domestic operations of Canadian banks are enormously profitable, with returns on equity between 22.8 per cent and 64.3 per cent. ATB's return on equity for 2017 was just 4.8 per cent. The commercial banks' ratio of operating costs plus provision for loan or credit losses to loans range from 1.89 per cent to 3.17 per cent. Assuming that ATB's operating costs to loans and provision for credit losses were the average for the major banks, the administrative cost to manage a loan would be about 2.50 per cent. It is not unreasonable to expect that ATB could aspire to operate as efficiently as the major banks, given its limited geographic territory, knowledge of local market conditions, and the credit support of the provincial government.

The power to offer loans at rates significantly below those of the chartered banks confers tremendous responsibility on the board and management of ATB. Given that a key component of the cost of lending money is the provision for credit losses (debts that are not repaid or only partially repaid), it becomes incumbent on the institution to lend money according to well-established maxims of credit analysis.

- 2. Finance social housing.** ATB could provide at-cost mortgages to low-income households, similar to Habitat for Humanity's zero-interest home equity mortgages.

Adequate housing is a basic right of citizens in advanced economies, and while the recent economic downturn in the province has benefitted some Albertans who were shut out from affordable housing during the boom years of over \$100-per-barrel oil, access to financing for housing is a sine qua non of any civilized society. An advantage of lending on the security of property is that such lending is considered safe and is eligible for Canadian Mortgage and Housing Corporation (CMHC) securitization programs or collateralized lending.

One danger of this policy is that ATB's competitors, the provincially regulated credit unions and federally regulated banks, would likely cry foul. But crying foul does not make such a policy a bad policy, it only forces ATB's competitors to up their game in providing low-cost mortgages and other products to their customers.

3. Provide loans for Alberta's Climate Leadership Plan programs, including renewable energy and energy efficiency programs.

The Alberta government has advanced the climate change agenda by recognizing the reality of anthropogenic climate change and the necessity of taking concrete measures to reduce greenhouse gas emissions. This aim is particularly problematic (but also courageous) for a provincial government that historically has been overly reliant on non-renewable resource revenue to balance its budget.

For the Alberta government to move energy production away from fossil fuels and towards clean energy such as solar, hydro, and wind power, a major effort is required to accelerate the movement away from coal-fired electricity generation.¹²⁵ This shift has been resisted by bondholders and shareholders who own and finance coal-fired electricity generation plants.¹²⁶ The chief long-term concern of investors is that these plants will become stranded assets, and hence valueless. The dilemma for governments like Alberta's, which depends on fossil fuel extraction as a key economic driver, is how to support the transition to a clean energy economy without being seen as traitors to the hegemonic energy economy.

ATB's expertise in deposit-gathering, credit adjudication, and providing payment services is an ideal vehicle to facilitate the delivery of broad-based government program to accelerate the movement away from fossil fuel generation and the emergence of a clean economy.

Alberta has a huge solar power potential even on winter days.¹²⁷ This does not mean that centrally generated electricity will not play a role for a number of decades, but the prospect that Alberta can learn to function without coal and adopt a decentralized and co-operative form of delivering electricity is a huge economic opportunity for the province. Moreover, a distributed energy production grid is more resilient than centralized electricity production.

- 4. Hold Government of Alberta bonds.** Under current projections, the Alberta government will be borrowing upwards of \$53.6 billion over the next three fiscal years¹²⁸ from financial markets. According to the 2018–19 budget, debt-servicing costs are forecast to reach \$2.286 billion by 2019–20, an amount nearly equivalent to the forecasted income \$2.315 billion from Alberta’s investment funds. This per capita borrowing level is significantly more than other Canadian governments, and will be a challenge for future governments.

There is virtually no information on who holds the debt of the government of Alberta; once debt is underwritten and sold, the debt is sold in secondary markets and it is difficult to know who ultimately holds Alberta’s debt at any one point in time. We can safely assume that most of the debt is held by institutional investors such as insurance companies, mutual fund complexes, and pension funds. Two provincial agencies that have the capability of holding Alberta’s debt are ATB and the Alberta Investment Management Corporation. One potential role for ATB would be to buy the short-term paper of the Alberta government instead of federal securities. This would keep interest income inside the province, and such securities qualify as eligible collateral at the Bank of Canada. A further reason for these institutions to hold Alberta’s debt is that the interest paid would remain in the province.

A key consideration, though, is how quickly these securities could be sold without loss for liquidity or cash-management reasons.

- 5. Provide agriculture loans.** Unfortunately—and incredibly—ATB no longer discloses its loans to the agriculture sector. Former disclosures reported \$1.4 billion in agriculture loans outstanding at March 31, 2011. At the end of March 2017, \$2.24 billion of agriculture loans were outstanding under the *Agriculture Financial Services Act*.¹²⁹ The scandal-plagued Agriculture Financial Services Corporation¹³⁰ could be integrated in ATB and made the pre-eminent lender to Alberta’s agricultural community. This would likely result in cost savings through overhead reductions.

6. Recapitalize ATB. At present, a significant portion of ATB's capital base is fictitious loans termed "subordinated debentures" of \$111.2 million; wholesale borrowings of \$1.42 billion; and notional capital of \$162.7 million.¹³¹ This cumulative "capital" of \$1.7 billion arose out of the initial transition to make ATB a stand-alone, commercially viable Crown corporation.¹³² In both cases (1997 and 2009), the government either could not or choose not to put money in to recapitalize ATB, and instead chose to defer payments for the deposit guarantee fee or payment in lieu of tax, transforming this debt into subordinated debt counting as capital. In short, these measures have artificially increased ATB's Tier 2 capital base, and therefore total capital. Our proposed recapitalization of ATB would eliminate the fictitious and notional capital counted as Tier 2 capital. Capital requirements would be simplified by requiring ATB to hold a minimum of 10 per cent of risk-weighted assets in core, or Tier 1, capital. This would be achieved by firstly, converting the subordinated debt into contributed surplus. In addition, instead of the fiction of paying tax, this levy would be eliminated as would the deposit guarantee fee. These changes would eliminate the circularity of payments between different parts of the Crown. This action would liberate almost \$100 million in retained earnings every year that could support \$1 billion in new loans.

Since the interest rates on all loans would be subsidized, demand for loans would increase dramatically. Given ATB's loan growth has been in the \$2–\$4 billion range per annum, the allowance for credit losses (a portion of which is included in Tier 2 capital under current rules) must be strengthened. A means of meeting the objective of loan demand would be for the government to convert the wholesale borrowing of \$1.42 billion to real capital by treating the borrowing as a contributed surplus, which would give ATB ample capital to grow under a new and simplified regulatory capital regime. This would also mean that the government would forego the interest payments on the \$1.42 billion in wholesale borrowings.

Our report and the policy suggestions above are intended to stimulate an important conversation in Alberta and across Canada about the nature of banking, money, and finance in general. We believe money and its creation should be seen as a form of a public utility, whereby the creation of money through credit benefits the greatest number of people at the least possible cost to society.

Alberta is unique amongst the provinces in having the benefit of its own public bank, ATB Financial, and the potential benefits of having our own bank, backed by the assets of the province of Alberta, gives Albertans a unique comparative advantage in the Canadian federation. It gives Albertans the power to create sufficient credit for our economic needs at costs of credit that are more competitive and lower than any other jurisdiction. The ability for ATB to create loans at cost and without the need to generate profits for private shareholders means that the benefits of lower costs of credit can be passed on to all Albertans, lowering the costs of business loans, farm loans, mortgages, student loans, and even government bonds or debt that currently get sold into financial markets.

There is really no other public bank with which ATB can be compared, except for the Bank of North Dakota, which while older and a provider of loans to the state government for things like infrastructure, lacks the number of financial services that ATB offers every Albertan.

ATB is our bank. If we want to control our economic destiny, we need to control the power to issue credit and invest in the assets of the people and natural assets of the province.

We welcome a healthy and vigorous debate about what we believe is a feasible and positive future for ATB: becoming a financial institution that is focused on meeting the social and economic needs of Alberta residents.

ENDNOTES

- 1 *Alberta Treasury Branches Act*, Statutes of Alberta, Chapter A-37. Section 35 reads: “At least once in every 5-year period following October 8, 1997, the Minister shall ensure that a member of the Executive Council introduces into the Legislative Assembly a motion that would have the effect of facilitating a debate in the Assembly on the question of whether this Act should be repealed.”
- 2 Section 19 requires the responsible minister initiate a review “who shall report the results of the review to the Executive Council.” In their recent article for *Alberta Views*, Glen Mumey and Nolan Derby raise questions about the partisan nature of board members of ATB but note the relatively satisfactory performance of ATB. We share their conclusion: “We need more intensive study of the pros and cons of selling ATB. Albertans, after all, are the bank’s [sic] owners. If the case were made clear enough, selling may not be beyond the realm of the possible.” Mumey & Derby, “Break the Bank,” *Alberta Views*, March 2018, p. 44.
- 3 ATB Financial, *Annual Report*, 2017, p. 35.
- 4 Section 3 of the *Miscellaneous Statutes Amendment Act, 2017* changed the legal name of ATB to ATB Financial, as well as the name of the act to the *ATB Financial Act*. Bill 34 proclaimed 15 December 2017. Throughout this paper references to Alberta Treasury Branches, ATB, ATB Financial, Treasury Branch, or Treasury Branches refer to that same entity.
- 5 ATB Financial, *Annual Report 2017*, p. 116.
- 6 Section 91(12) of the *British North America Act, 1867*, 30–31 Victoria, c. 3 (U.K.). Section 15 “Banking, Incorporation of Banks, and the Issue of Paper Money.”
- 7 At 30 September 2017, ATB’s retained earnings were \$3.3 billion but its total capital was \$3.2 billion due to a deduction for accumulated other comprehensive (loss) income.
- 8 ATB Financial, *Quarterly Financial Statements*, quarter ended 31 December 2017, p. 1. Seventeen per cent of the population should not be equated to having a 17 per cent market share. Most adults have several “banking” relationships. The industry focuses on mortgage products, which are seen as a way of gaining the primary banking relationship.
- 9 See for example Powe, 1951; Mallory, 1954; Irving, 1959; Finlay, 1972; Hesketh, 1997; Ascah, 1999; and McPherson, 2013.
- 10 Bruce Alan Powe, 1951, Chapter 2.

- 11 These orders were ultimately confirmed in the *Treasury Branches Act* passed in November 1938. *Statutes of Alberta*, 1938, Second Session, Chapter 3.
- 12 Powe, pp. 73–101 on the voucher system. The complexity of the system is documented in Chapter 4 of Powe’s thesis. The government’s sensitivity to the constitutionality of the scheme was a central factor in its design.
- 13 Powe, pp. 101–108. See also Hesketh, 1989, pp. 44-47, who notes that the payment of the bonuses was bookkeeping without the back-up of any budgetary appropriation. The bonus was sweetened to five per cent, then dropped later to two per cent as profitability issues emerged.
- 14 Powe, p. 123.
- 15 According to Powe, p. 265: “Through the inexpensive nature of the agency system the government was able to expand the Treasury branches throughout the province on a large scale. The agency system provided a means of extending banking facilities to districts where banks had closed down or to centres where they had never been located.”
- 16 Overdrafts occurred prior to the formal announcement of the lending phase. Order in Council 812/41.
- 17 Powe, pp. 182–189.
- 18 Hesketh, 1989, pp. 55–56. Centralized control also reflected the lack of trust in the qualifications of the branch lenders in the early years.
- 19 Powe, pp. 189–192. According to Powe, “Personal loans are granted for any ‘legitimate purpose’ including home improvements, to be secured by endorsement of a third party or by salary assignment, and in the form of term loans, for periods not exceeding three months, or as monthly installment loans for periods not exceeding twelve months.”
- 20 *Ibid*, p. 53.
- 21 *Ibid*, pp. 58–61 and p. 285. Olive was appointed Acting Superintendent in 1938 and was only formally appointed Superintendent in 1949.
- 22 Hesketh, 1989, pp. 50–51.
- 23 *Ibid*, Chapter 3. Interested readers are encouraged to access his 400-page manuscript to appreciate the degree of political maneuvering and cover-up during the late 1940s and 1950s. “Political lending” commenced in 1946.
- 24 Mowat will be retiring at the end of June 2018. Strange was appointed his successor on May 17, 2018.

- 25 Hesketh, pp. 62–63. A significant loss was expected by Olive, and Lassiter's assets were eventually sold by the Marketing Board.
- 26 Pyramiding loans refers to lending money to effectively pay the debtor's principal and/or interest payments.
- 27 Hesketh, pp. 82–95. Large pyramiding loans included Robinson, Phelan, O'Sullivan, Podgurney, and Sparling-Davis. See below.
- 28 Manning served as treasurer from 1944–1954.
- 29 Hesketh, pp. 75–80. ATB did not establish a reserve account for doubtful loans until 1948. The accounting treatment of loans is a central concern of bank regulators and shareholders in financial institutions. The business of lending money is based on both the security pledged and trust of the lender in the “character” of the borrower, viz., the lender will be paid back. Whether it is an allowance for doubtful account, provision for credit loans, a specific or general loss. The ultimate decision on how much to report is a decision of the organization itself. Some institutions are known for over-providing, some for under-providing, and considerable subjectivity is involved. Besides salaries, credit provisions are the largest expense items. Complicating the accounting is the difference between “providing” and the ultimate resolution of the loan, which can be written-off or gains on disposal realized.
- 30 *Ibid*, pp. 63–68. ATB business lending values were usually based on a percentage of real property and chattels, whereas banks also loaned on receivables and cash. ATB's approach was potentially problematic as real property was illiquid and its value subject to fluctuations, as well as manipulation, and therefore required vigilant monitoring.
- 31 *Ibid*, p. 105. Warning signs had been flashing publicly for some while. In 1953 Auditor Keith Huckvale characterized the provision for uncollectible accounts as “inadequate”; further, in his 1954 audit certificate, Huckvale stated, “Provision for uncollectible accounts in the amount of \$148,000 was made leaving the reserve for bad and doubtful accounts at \$322,069.48 as at March 31, 1954. *The reserve is considered quite inadequate for its purpose.*” (Emphasis added.) Public Accounts of Alberta for the fiscal year ending March 31, 1954, at p. 223.
- 32 *Ibid*, pp. 325–336. In a 1956 memo to Hinman, Olive later admitted that, at this stage in the negotiations, “[Mannix] was aware that Sparling was in difficulties and I feel confident now he delayed closing any deal purposely in order to drive as hard a bargain as possible.” At p. 331.

- 33 *Ibid*, p. 336. Under Mannix's ownership, Sparling-Davis' loans to ATB were gradually reduced. Olive, as he moved into retirement, was tasked with negotiating a compromise on the debt with Mannix. There is some suggestion that Mannix's monopoly over the oilfield work in the Pembina field obtained from the Manning government, and the profits therefrom, were helpful in reducing loans to ATB. Hesketh, p. 362.
- 34 Hesketh, 1989, pp. 116–120.
- 35 *Ibid*, pp. 153–154.
- 36 *Ibid*, pp. 186–197.
- 37 *Royal Commission to Inquire into Certain Charges, Allegations and Reports relating to the Conduct of the Business of Government*, Edmonton, 1955.
- 38 Section 401.2 of the *Bank Act* constrains banks from registering and transferring shares held by provincial governments and their agents, subject to an exception process for eligible agents such as pension funds. Section 401.3 prohibits a provincial government or agent from exercising voting rights attached to shares in a Canadian bank.
- 39 *Ibid*, pp. 353–355.
- 40 *Revised Statutes of Alberta*, 1970, Chapter 369.
- 41 See Randy Otto and Glen Mumey, "Competitive Advantages and the Alberta Treasury Branches," Western Centre for Economic Research, University of Alberta, Number 45, March 1997, p. 4.
- 42 "Failure" of a financial institution can be considered along a continuum from being sold to another institution and recapitalized to being liquidated, with the assets being sold for the benefit of depositors, secured, and unsecured creditors. The following institutions "failed": Canadian Commercial Bank, Northland Bank, Heritage Savings and Trust Company, Principal Trust, Associated Investors, First Investors, Edmonton and Calgary's credit unions, and Northwest Trust. Government finance departments, the Bank of Canada, financial institution regulators, and deposit insurers would all have been involved in this process.
- 43 *Annual Report*, 1990, p. 1. Use of the term is and was a violation of Section 983 of the *Bank Act*, which prohibits the use of "bank," "banker," and "banking" by organizations other than chartered banks. ATB also rolled out "Alberta Banking Machines." Recent controversy between the Office of the Superintendent of Financial Institutions and with credit unions' use of the term banking had been termed as a "clash of regulation versus common sense." See James Bradshaw, "Budget proposes allowing credit unions to use 'generic bank terms,'" *The Globe and Mail*, 28 February 2018.

- 44 A key concern of lenders was the high costs of deferred maintenance facing the mall's owners.
- 45 Auditor General of Alberta, *Report of the Auditor General on the 1994 Refinancing of West Edmonton Mall*, February 1999. The auditor general concluded, "The political involvement was not successful. It did not achieve its objective of providing sufficient time to develop a *commercially prudent alternative financing* to the Gentra/ATB agreement." The key words are "commercially prudent." In the preceding paragraphs (pp. 11–13), Auditor General Peter Valentine lays out the communications and contacts between Mr. Kowalski, the Deputy Premier and Minister of Economic Development and Tourism, the Provincial Treasurer Jim Dinning, the Superintendent of Treasury Branches Al Bray, the Acting Superintendent of Treasury Branches, Elmer Leahy, the Deputy Provincial Treasurer, Finance and Revenue, A.J. McPherson and Gentra. In October 1993 Kowalski was "appointed as the Minister to deal with all aspects of the government's interactions with Triple Five (WEM's owner the Ghermezian family)" (p. 7). It was clear that the treasurer and the then-superintendent Al Bray disagreed with an "Alberta solution" and delay in the refinancing by finalizing an agreement with Gentra on March 10, 1994. This was overridden by Bray's successor (Elmer Leahy), with a new agreement between ATB and WEM reached with an ultimate exposure of a \$418 million loan guarantee entered into on October 31, 1994 (p. 8). The deputy provincial treasurer who was meeting monthly with the acting superintendent did not learn of the guarantee until after it was provided. The provincial treasurer was very averse to "ATB's continuing participation in the financing of WEM, the Ghermezians and Triple Five Corporation" (p. 50). Kowalski was fired from his post as deputy premier and minister of economic development on September 15, 1994.
- 46 Nader Ghermezian's handwritten letter to Kowalski of May 19, 1994 read, "Despite this sound offer which is made by First Boston of Gentra, Gentra is very unreasonable in giving it a chance and are proceeding to place the mall in bankruptcy and yesterday gave Triple Five a 10 DAY FINAL NOTICE TO PAY ALL debt which is not even due (due date August 14, 1994). UNLESS THE PREMIER CALLS THE CHAIRMAN OF GENTR MR FRASER BEATY [sic], DISASTER will happen unjustifiably." Sessional Paper 537/2000.
- 47 *Public Accounts of Alberta*, Volume 3, 1994–95, p. 278.
- 48 *Business Financial Assistance Limitation Statutes Amendment Act* restricted the government's ability to give loans or issue loan guarantees to businesses in Alberta. See also *Hansard*. 23rd Legislature, Second Session, 1 March 1994, where Deputy Premier Ken Kowalski extolled the economic benefits of WEM, pp. 343-344.

- 49 Hansard, 23rd Legislature, 3rd Session, 13 March 1995, pp. 508-509. Questions continued under Mike Percy's leadership and then under Howard Sapers, 14 March 1995. Under section 8(1)(a) of the *Conflicts of Interest Act*, members of Alberta's legislative assembly are prohibited from *borrowing* from ATB. See also Hansard 14 March 1995, pp. 546-547 and 18 October 1995, p. 1989.
- 50 *Annual Report of the Auditor General of Alberta*, 1997-98, pp. 223-224.
- 51 *Ibid*, p. 223.
- 52 Gordon Flynn, *Alberta Treasury Branches- General Review and Recommendations*. December 1994. Sessional Papers 914/95.
- 53 *Ibid*, pp. 8-12.
- 54 *Ibid*, p. 14.
- 55 Treasury Branches Working Group, Report to Provincial Treasurer, 10 February 1995. Sessional Paper 913/95. Members of the working group included Brian Heidecker and Gail Surkan, who would join ATB's board in 1996, and Brian McCook, who joined ATB's board in 2000.
- 56 *Ibid*, pp. 3-6.
- 57 *Ibid*, p. 8.
- 58 Bill 39, *Treasury Branches Amendment Act*, 1995. Third Session, 23rd Legislature, 1995. Section 2.1 created the board, including by-laws dealing with conflicts of interest; and section 2.7 mandated an audit committee consistent with other financial institutions' statutes. In a departure from previous practice, the treasurer appointed Louis Desrochers, a prominent Liberal party lawyer from Edmonton, and Mike Maher, dean of the University of Calgary's business school, to lead the recruitment activity for board members. Ads inviting applications for board positions were placed in Alberta papers and hundreds of applications were received. In March 1996, the provincial treasurer announced the names of the new board. Desrochers and Maher were assisted by human resources specialists from Ernst & Young.
- 59 O.C. 114/96 dated 20 March 1996. See also the press release which outlined the process of appointment and biographies of the new directors, 20 March 1996, "Government Appoints 15 Member Board of Directors for Alberta Treasury Branches." Legislative Assembly, Sessional papers, 746/96. Over 450 applications were received. The panel was advised by Ernst & Young, which was subsequently engaged in the hiring process for the new CEO. Letter from P. Michael Maher to Honourable Jim Dinning dated 12 March 1996. Sessional Paper 747/96. Criteria listed included: "amount of previous board experience, nature of business experience, including industry representation, entrepreneurial/small business versus corporate, geographic location, and rural versus urban."

- 60 Order in Council 359/96, August 1996.
- 61 Treasurer Jim Dinning to Marshall Williams, March 1996. Legislative Assembly, Sessional Paper 747/96—but no copy of the letter is in the Legislature Library file.
- 62 Jac MacDonald, “Big leagues no place for Treasury Branches: Dinning (Annual Convention,” *Edmonton Journal*, 9 March 1996.
- 63 Jac MacDonald, “Privatization not in the cards for Alberta Treasury Branch,” *Edmonton Journal*, 13 April 1996.
- 64 Sessional Papers 837/98, 840/98 and 841/98.
- 65 Sessional Papers 830/98 and 831/98. Ironically the return filed with the legislative assembly was blank: the then provincial treasurer and government decided not to disclose any information about the report.
- 66 “New Legislation Strengthens Alberta Treasury Branches’ Ability to Compete,” 10 June 1997.
- 67 Bill 33, *Alberta Treasury Branches Act*, First Session, 24th Legislature. Provincial Treasurer Stockwell Day was responsible for bringing forward the bill and regulations. Alberta Regulation 187/97, October 8, 1997.
- 68 The fact that the loan guarantee to the Toronto-Dominion Bank for WEM was not acknowledged by the government for confidentiality reasons.
- 69 *ATB Annual Report*, 1997–98, footnote 20, p. 32. ATB also took a \$45 million write-down: the difference between the outstanding balance of \$345 million and estimated realizable value.
- 70 Jac MacDonald, “New Documents show middleman assisted in 1994 WEM refinancing,” *Edmonton Journal*, 16 February 2000.
- 71 Vivone, p. 178. In responding to a question from NDP Leader Brian Mason about a possible cover-up concerning the settlement, Finance Minister Shirley McClellan stated: “The crown was fully released from any claims and allegations and has recovered 100 per cent of its legal costs pertaining to this matter. Particulars of any financial arrangement between ATB and West Edmonton Mall are strictly confidential as are all dealings between ATB and its customers. ATB has a fiduciary obligation to keep customers’ files and business confidential.” Letter dated 25 November 2005. Sessional paper 700/2005. See also Jac MacDonald, *Edmonton Journal*, 21 December 2002, <https://groups.google.com/forum/#!topic/ont.general/74fT86mZMNA> (accessed 21 April 2016).
- 72 Press Release, 24 August 2007, “ATB Financial to Acquire All Asset-Backed Commercial Paper of ATB Money Market Fund.”

- 73 ATB and ATB Investor Services were not the only financial institutions caught in the financial imbroglio: *Caisse de depot et placement* (\$10 billion), *Caisse Desjardins* (\$6 billion), National Bank (\$4 billion) and PSP Investment (\$3 billion) had more invested than ATB. Fortunately, Alberta public sector funds did not have much in the way of exposure to these short-term investments.
- 74 *Report of the Auditor General of Alberta*, October 2008, pp. 109–149. Unusually, the names of the former CEO and executive vice-president and treasurer were mentioned in the report at page 147. See also Neil Waugh, “Cracks show in people’s bank,” 27 November 2007, where the question of future write-downs and political accountability is discussed.
- 75 *Report of the Auditor General of Alberta*, October 2010, pp. 61–65. See also the auditor general’s April 2010 report pp. 81–88. See also Trish Audette, “Morton wants answers on huge ATB overrun,” *Edmonton Journal*, 16 April 2010.
- 76 Government of Alberta, news release, “Government, ATB Financial work together to benefit Albertans during tough economic times,” 7 July 2009. <https://www.alberta.ca/release.cfm?xID=2642355B5A4B8-EE43-1E07-01106AF9165F18FE>. Capital as defined by financial institution regulators is characterized by its capacity to absorb losses. ATB’s primary source of capital is its retained earnings and debentures owing to the government for deposit insurance premiums. Deposits are a claim by external depositors are *not* capital. In September 2009, ATB sold 4.25 per cent, five-year deposits that counted as capital. The rate was well about the rates offered by competing institutions. These changes illustrate the problems of government owning, regulating, supervising, and guaranteeing the deposits of a financial institution.
- 77 See for example the YouTube video on ATB Financial’s Four Directions initiative, which established in 2016 “a financial institution run by Boyle Street Community Services and empowered by ATB Financial.” <https://www.youtube.com/watch?v=gsupYg7bm2Q>
- 78 *Annual Report*, 2015, pp. 53–55.
- 79 Jose Antonio, “This Canadian Bank [sic] is reaching out to blockchain start-ups and ICOs,” Decentral Market, 13 April 2018. <https://decentral.market/2018/04/11/this-canadian-bank-is-reaching-out-to-blockchain-startups-and-icos/>. According to the article quoting an interview from *Bitcoin Magazine*, ATB’s director of Innovation, Mike Brown noted, “We have recently undertaken a pilot, however, to provide banking services for a small group of cryptocurrency startups in order to understand how to mitigate those barriers that do exist for financial institutions.”
- 80 Honourable Joe Ceci, *Budget Address 2015 The Alberta Way*, 27 October 2015, p. 13.

- 81 The agreement allows ATB to request the provincial government to borrow on behalf of ATB and to on-lend the proceeds to ATB under certain conditions and subject to a credit limit. By December 31, 2015, ATB had availed itself of \$680 million of the \$1.5 billion “capital” injection via the Wholesale Borrowing Agreement.
- 82 Order in Council 285/2015 under the *Financial Administration Act*—Amends Order in Council numbered O.C. 334/2012 to increase the borrowing limit of Alberta Treasury Branches from \$5.5 billion to \$7 billion.
- 83 Gary Lamphier, “ATB Exec outlines bank’s [sic] plan to increase lending,” *Edmonton Journal*, 3 December 2015. Contingent capital was *de rigueur* after the financial crisis. Regulators wanted financial institutions, especially systemically important ones (“too big to fail”) to sell this form of capital that would be converted to “equity capital”—able to absorb losses—when an institution became troubled. See also Bob Ascah’s op-ed, *Edmonton Journal*, 5 November 2015. <http://edmontonjournal.com/news/politics/opinion-good-news-and-bad-in-albertas-budget> (accessed 5 February 2018).
- 84 ATB’s financial statements over the decades alternate between providing breakdowns on agriculture, independent business, and commercial lending, making it difficult to consistently understand the evolution of these different business market segments. ATB financial statements for fiscal years ending March 31, 1939–2017.
- 85 ATB financial statements for fiscal years ending March 31, 2010–2015.
- 86 *Annual Report*, 2008, p. 58. At March 31, 2008, nine per cent of ATB’s net loans were to mining, energy, forestry. Recently, the Government of Alberta’s credit rating was reduced by Moody’s. In their decision, the bond rater singled out ATB’s performance as a factor in its downgrade. At the very time that the government does not need additional financial pressures, its exposure to both ATB and Alberta’s credit unions (through the Credit Union Deposit Guarantee Corporation) is at an all-time high of over \$57 billion in deposit liabilities. Moody’s rating action assumes ATB can remain “self-supporting” but moots the possible need for additional capital.
- 87 ATB Quarterly Report, Q3 2018 (31 December), p. 12. http://www.atb.com/SiteCollectionDocuments/About/full_quartly_reports/2017-18/FY18Q2.pdf (accessed 1 February 2018).
- 88 See, for example, Royal Bank of Canada (RBC) Quarterly Report, Q3 2017, p. 29. http://www.rbc.com/investorrelations/pdf/2017q3_report.pdf (accessed 30 January 2018).

- 89 Section 9.2 of the ATB Regulation permits ATB to participate in syndicated loans of borrowers with head offices outside the province but with operations in Alberta (e.g., a client like Loblaws). Additionally, section 10 (2.3) authorizes ATB to enter into credit derivatives “in respect of residential mortgage loans secured by land situated in Canada for the purpose of diversifying its geographic concentration risk.”
- 90 Section 19 of the *Alberta Treasury Branches Regulation*, AR 187/97.
- 91 Section 4 (r) RSA 2000, Chapter F-25.
- 92 Section 2(3) of the *ATB Financial Act*.
- 93 Section 2(2) of the *ATB Financial Act*.
- 94 See pages 97–100 and footnotes 18 and 24 to ATB’s 2016–17 financial statements.
- 95 *Report of the Auditor General of Alberta*, October 2008, pp. 23–49; *Report of the Auditor General of Alberta*, October 2009, pp.19–34.
- 96 *Alberta Hansard*, 6 May 2002, pp. 1172–1174, Motion presented by Patricia Black; 3 April 2007, pp. 371–374, Motion presented by Lyle Oberg; 11 March 2013, pp. 1486–1489, Motion presented by Doug Horner.
- 97 In 2007–08 when ATB became a provincial agency, a vote was taken by ATB employees then in the union. The Alberta Labour Relations Board broke the vote into two groups. The largest group of tellers remained in the Alberta Union of Provincial Employees (AUPE), while the supervisory group voted to leave the union.
- 98 Ellen Brown, “Public Sector Banks: From Black Sheep to Global Leaders,” *Global Research* 08 March 2012. <https://www.globalresearch.ca/public-sector-banks-from-black-sheep-to-global-leaders/29662>
- 99 Public Banking Institute, “Introduction to Public Banking”. http://www.publicbankinginstitute.org/intro_to_public_banking
- 100 ATB pays a notional tax to the government. However, since its inception in 2007, the payment has simply been converted into a secondary form of capital.
- 101 ATB Financial, *Annual Report, 2016–17- It’s all about You*, p. 35.
- 102 *Ibid*, p. 112.
- 103 See footnote 100 above. ATB does make a payment to the Alberta Government in lieu of taxes—\$45 million in 2017. ATB is permitted to issue a subordinated debenture to the province which counts as a form of capital.

- 104 *Standing Committee on Banking and Commerce, Minutes of Proceedings and Evidence Respecting the Bank of Canada*, Ottawa, J.O. Patenaude, I.S.O., Printer to the King's Most Excellent Majesty, 1939.
- 105 John Kenneth Galbraith from *Money: Whence It Came, Where It Went*. Houghton Mifflin, 1975.
- 106 This description is simplistic but conveys the general sense. The literature on what constitutes the money supply is prodigious. The classic is Milton Friedman and Anna Jacobson Schwartz, eds., *A Monetary History of the United States 1867–1960*. Princeton University Press, 1963.
- 107 Section 24 (2) of the *ATB Financial Act* requires that ATB directors take into account the interest of depositors when considering their duty in acting in the best interest of ATB.
- 108 See Michael McLeay, Amar Radia, and Ryland Thomas, “Money creation in the modern economy,” *Bank of England Quarterly Bulletin* 2014 Q1, p. 14. “Whenever a bank makes a loan, it simultaneously creates a matching deposit in the borrower’s bank account, thereby creating new money.” <https://www.bankofengland.co.uk/-/media/boe/files/quarterly-bulletin/2014/money-creation-in-the-modern-economy.pdf?la=en&hash=9A8788FD44A62D8BB927123544205CE476E01654>
- 109 McLeay et al, 2014, p. 16. “[S]ome economists have referred to bank deposits as ‘fountain pen money’, created at the stroke of bankers’ pens when they approve loans.”
- 110 Sir Mervyn King, Speech to the South Wales Chamber of Commerce at The Millennium Centre, Cardiff on 23rd October 2012.
- 111 Martin Wolf, “The Fed is right to turn on the tap,” *Financial Times*, 09 November 2010. <https://www.ft.com/content/93c4e11e-ec39-11df-9e11-00144feab49a> (accessed 08 February 2018).
- 112 Ibid.
- 113 US Federal Reserve Statistical Release. Z.1 *Financial Accounts of the United States*. Q2 2017. September 21, 2017. Table D.3: Debt Outstanding by Sector, p. 7. <https://www.federalreserve.gov/releases/z1/>
- 114 In practice, the Bank of Canada deals primarily with the Government of Canada.
- 115 Other liabilities of ATB include collateralized borrowings—essentially mortgages ATB has pledged to the Canada Mortgage and Housing Corporation (CMHC) in return for cash and wholesale borrowings conducted by the Government of Alberta from the financial markets on behalf of ATB. ATB Financial quarterly report for quarter ended 31 December 2017, at p. 16.

- 116 See Christopher Graham, Natasha Khan and Alexandra La, “Recent Changes to the Bank of Canada’s emergency lending assistance policy,” *Bank of Canada Review*, Autumn 2016, pp. 25- 35.. <https://www.bankofcanada.ca/wp-content/uploads/2016/11/boc-review-autumn16-graham.pdf> . See also Nick Le Pan, *Opportunities for Better Systemic Risk Management in Canada*, C.D. Howe Commentary, 490, September 2017. However, this amendment to the *Bank of Canada Act* is not yet in force. See <http://laws-lois.justice.gc.ca/PDF/B-2.pdf> (accessed 21 April 2018).
- 117 The agreement is more complex than giving the right to seize property. Most jurisdictions have defined processes whereby security on a loan can be realized.
- 118 See Margaret Atwood’s incisive Massey lecture republished as *Payback*. Toronto: House of Anansi Press, 2008. Particularly thoughtful are her observations around the moralistic aspects of debt. See also Ernest Mandel, *Marxist Economic Theory*, London: Merlin Press, 1968, p. 221: “Contrary to the industrialist and the trader, the banker has in fact to play a social role *directly*. He is useful to the capitalist mode of production only to the extent that he can overcome the fragmentation of social capital into a multitude of individual properties. It is in the function of *mobiliser* and *centraliser of social capital* that his whole importance to society consists.”
- 119 Government of Alberta, *Fiscal Plan Budget 2018: A recovery built to last*, at p. 11.
- 120 From Moody’s Investor Services, 16 May 2017 rating report on the Province of Alberta, at p. 4: “CONTINGENT LIABILITY RISK: Alberta faces some contingent liability risk via its provincially owned bank, ATB Financial. Although the province guarantees ATB’s debt of around CAD 5.5 billion and customer deposits, we view ATB as a self-supporting entity, and its debt is not included in Alberta’s debt metrics. ATB has experienced strong growth in its loan portfolio over recent years. The bank would likely be reliant on the province in a period of financial stress, and as a result the provincial guarantee of ATB’s obligations may pose stress on the province’s level of cash and investments. At December 31, 2016, ATB’s gross impaired loans increased to 1.7 per cent of the total loan portfolio, up from 1.1 per cent a year earlier. Although impairments are at a relatively low level, we expect that the loan portfolio will continue to show signs of deterioration, reflecting Alberta’s weakened economic environment and the impact of lower oil prices on ATB’s energy portfolio. Furthermore, ATB’s lending activities have led to an increased use of collateralization. As ATB’s debt is currently not included in our calculation of the province’s net direct and indirect debt, the negative outlook reflects the increased risk that ATB may require capital injection from the province.”

- 121 Effective 13 January 2011. See Section IA(3) affirming ATB must be operationally independent.
- 122 *ATB CODE OF CONDUCT & ETHICS*, Revised April 2017.
- 123 Section 14 of the *Bank of Canada Act*.
- 124 ATB's efficiency ratio—a measure of efficiency—is one of the poorest in Canada, at about 72 per cent in the recent June quarter. Canadian banks operate between 40 and 50 per cent efficiency. (A lower number is more efficient.) A realistic borrowing rate for a more efficient institution would be 2.25 per cent.
- 125 See Elise Stolte, "Access-to-cash plan for eco-home upgrades still in the works: Minister," *Edmonton Journal*, 30 October 2017.
- 126 The exception is Calgary city-owned ENMAX and to a lesser extent Capital Power, which was owned via EPCOR by the City of Edmonton until 2009.
- 127 See for example Monica Curtis, "Outlook is sunny for Renewable Energy," *Edmonton Journal*, 27 January 2018.
- 128 *Budget 2018 Fiscal Plan: A recovery built to last*, p. 149.
- 129 Agriculture Financial Services Corporation, *Annual Report*, p. 38. <https://www.afsc.ca/doc.aspx?id=8225>
- 130 The text of the Chief Internal Auditor's June 2016 report addressing this issue was briefly made public, but appears to have since been taken down. See Emma Graney, "Alberta NDP dismisses Agricultural Financial Services board over problems with expense claims," *Edmonton Journal*, 13 June 2016. <http://edmontonjournal.com/news/local-news/agriculture-financial-services-corporation-board-of-directors-fired-after-anonymous-tip-to-alberta-government>; Government of Alberta, "Crown Corporation Board of Directors replaced," press release, 13 June 2016. <https://www.alberta.ca/release.cfm?xID=41913EF67B3C9-E8AC-14BE-BBCEE8B8D7A4FDA1>
- 131 ATB Quarterly Financial Statements at 31 December 2017, p. 33.
- 132 Without going into too much historical minutiae, notional capital of \$600 million was ceded to ATB in 1997 to create a regulatory capital framework to limit ATB's growth and to reduce leverage over time. As ATB earned profits, retained earnings reduced notional capital to the point when ATB was adequately capitalized by 2002. In addition, a deposit guarantee fee was charged to ATB in recognition of the government guarantee which was paid in subordinated debt owing to the Government- a circular relationship. Prior to the ATB crisis, another levy was imposed on ATB to level the playing field with tax-paying financial institutions. A 23 per cent "tax" on net income was

payable to the government but also in the form of subordinated debt. Subordinated debt is five-year term debt repayable upon maturity. Given the growing deposit liabilities and hopefully growing net income, total subordinated debt is expected to grow. The third element, notional capital was created in the wake of the ABCP crisis when large losses were incurred. A total of \$600 million of notional capital was created in 2009 to allow ATB to meet its capital requirements. This notional capital reduces by one-quarter of net income each quarter. The final, and largest adjustment to capital is the wholesale borrowings made eligible for Tier 2 capital in December 2015.

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