

Intelligence MEMOS



From: Charles DeLand

To: Premier Danielle Smith

Date: May 30, 2023

Re: **IT'S THE MORNING AFTER IN ALBERTA. WHAT NOW FOR THE ECONOMY?**

Last night you comfortably won a hard-fought election. You will lead the government of a prosperous and dynamic province, probably for the next four years. Just 12 percent of Canadians live in Alberta but they generate almost 15 percent of Canada's total gross domestic product.

While Alberta has many good things going for it, leading the province is not easy, especially financially. While revenues are now high, coming mainly from oil and gas related royalties and taxes, their intrinsic volatility has vexed Alberta governments and finance ministers for decades.

With a new government, you have an ideal opportunity to consider long-term changes to ensure long-term success for Albertans. Trevor Tombe neatly [summarized](#) three simple goals in an Intelligence Memo last year that was based on an idea from former Premier Jim Prentice. They are worth keeping in mind.

First, maintain costs. Maintaining a target per-person spending level aligned with other provinces is a good starting point.

Second, introduce (finally) discipline for resource revenue windfalls. For example, you could commit to rebuilding the Heritage Trust Fund by saving every dollar of future resource revenue above a certain benchmark, say that in the most recent budget forecast. Investment returns on that revenue will add up, and will likely be higher than the other option of paying off low-interest debt.

Third, don't increase the tax burden.

These three goals would be a good start, but not the end of the story.

More could be done to promote investment and growth by pursuing changes in the composition of tax revenue.

Again, don't raise taxes. But the government could raise the money it needs in a way that could increase investment and employment, and make Albertans better off at the same time.

No tax is perfect. But some forms can be worse than others. Alberta has primarily chosen income taxes, which tend to discourage employment; and corporate taxes that may [inhibit](#) the business investment needed for capital formation and high productivity. Alberta should rely less on its provincial income tax and corporate tax. Attracting investment and encouraging Albertans to work by letting them keep more of their earnings are easy wins.

That's the easy part. But governments still need revenue to provide the services Albertans need: Healthcare, education, infrastructure, support for vulnerable people, and public safety.

To fill the gap of lower corporate and income tax revenue, many economists have long [suggested](#) Alberta consider a consumption tax (a sales tax is a type of consumption tax). If you are still reading, it remains an idea worth considering.

Some Albertans take pride in the lack of a sales tax. But they may be paying for that feeling by foregoing a higher standard of living.

Consumption taxes can increase the reach of the tax, which means each person pays less overall. They tend to be cheaper to collect than income and corporate taxes, which are burdensome for individuals and companies to track and pay. It's expensive for government to monitor and enforce compliance. In addition, it's easier for people to see what they pay. To avoid regressive impacts, it's relatively easy to put in place generous payments to lower-income taxpayers or exemptions on necessities such as food and medicines.

While you and NDP leader Rachel Notley both promised not to introduce a sales tax if elected, you can still conduct more research during your term. Without explicitly calling for a consumption tax, the Business Council of Alberta [suggests](#) a citizen and expert panel exploring revenue models to create more stability and certainty.

It's understandably difficult to talk about consumption taxes in Alberta today. It's also easy for government leaders to put off hard decisions needed to stabilize revenues. But future Albertans deserve a leader now brave enough to fully investigate the options before them.

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