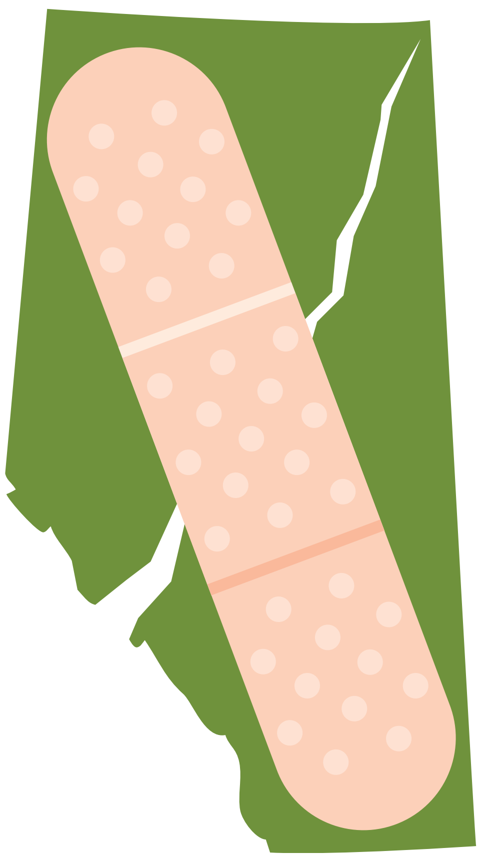
The Case for Surplus Reduction

Alberta is facing a financial crisis, but it's not what the Klein government would have us believe. As the provincial Conservatives try to ramp down expectations in the face of swelling resource revenues, their own budgeting practices have increased the surplus—and the expectations of spending—even further.

We should have been jolted awake with the $1.8-billion surplus for the fiscal year just ended. The good news is that after the province paid all the bills for the 2002–2003 budget year, it ended up with over $1-billion more than the $724-million surplus it was expecting. The bad news is that the forecasters, who put together the budget just 12 months earlier, missed their projections by nearly 250 per cent. And that's not bad, compared to a couple years ago. In the 2000–2001 fiscal year, the $6.4-billion surplus exceeded the estimate by nearly 900 per cent. These miscalculations by experts in the provincial Finance Department are part of a pattern of deflated surplus estimates, confirming suspicions that the government underestimates revenue so it can plow money into paying off the debt rather than keep services adequately funded.

If money managers were to make those kinds of mistakes handling our personal finances, we wouldn't even trust them to balance our cheque books. But when government miscalculations put us on the plus side of the ledger, we don't much care.

The public mindset is that as long as the province is rich, nothing else matters. This attitude permeates government as well. We are not paying for services—for new schools, roads and highways, rural physicians, universities and the like—when we need them. Rather, we're relying on whatever money we have left over from surplus budgets—once we've allocated arbitrary, but significant, portions to paying down the debt. We're financing public programs based on what cash we've got



to spare rather than what we need.

This lack of planning is magnified over the long term. Obsessed with paying off its debt, the government dismisses the need for a capital plan for financing public projects like schools and hospitals, even though its own Financial Management Commission raised a red flag about the government's reluctance to commit future earnings to investments that benefit future generations. The commission wrote in its report that refusing to go into debt to finance public projects is "the household equivalent of paying for your house up front as opposed to using a mortgage to pay for it over time."

Of course, this so-called stop-and-go financing does involve spending. In fact, historically, times of high revenues are usually followed by times of high spending. The government's spending has crept up by an average of 9.5 per cent since we began running surpluses again in 1995. The record $6.4-billion surplus in 2000–2001 was followed by a hike in program spending totalling 25 per cent over a two-year period. Health spending alone shot up by 47 per cent over two years. But this spending comes too late: it's not that we all of a sudden have a great demand for public services—or a plan for long-term capital financing—it's just that we have money to spare for some much needed band-aids.

In the meantime, the province's "infrastructure deficit"—construction and repairs needed for roads, schools, hospitals and the like—ranges from $2.8-billion to more than $7-billion, depending on who is doing the counting. School boards in Edmonton and Calgary alone say they need more than $3-billion to repair crumbling schools, many of which are over 50 years old. The government's response, an allocation of $5.5-billion in each of the next three years, will cover some of the backlog but it won't do much to address future needs. What happens after three years is anyone's guess. By then we'll be into another financial crisis. We can plan on that.

Larry Johnsrude is a political writer for the *Edmonton Journal*.

SCOTT DUTTON