

The Alberta Mad-Vantage

If You Listen To Alberta's Tory Leaders, The Province's Fiscal Future Is Sound. But Where Is The Massive Reserve Fund? And Why Are Their Own Experts Talking About 40% Tax Hikes?

Kevin Libin, National Post Published: Tuesday, February 03, 2009

You have to wonder whether Bernie Madoff will live to regret his alleged deceptions. When his once acclaimed investment fund collapsed in December, amid charges it was a US\$50-billion Ponzi scheme, Madoff was 70 years old. For decades, authorities say, he lived it up with homes in Palm Beach and France, yachts and private jets. If convicted, Madoff won't likely live to see a dozen years in the clink. A few years of hardship for half a lifetime of luxury? That's a better deal than most earthlings get. Mortality's mercy offers even bamboozlers caught red-handed the chance to come out ahead.

Provinces, with immeasurably longer lifespans, aren't as lucky. For irresponsible ones, reckonings can only be postponed; never cancelled. Like Madoff, Alberta's lived the high life for years, boasting of its shrewdness. Its scheme, too, is unraveling. But unlike Madoff, the province has many long, hard years ahead to pay for its sins.

Madoff's game was reportedly a shock to investors; everyone knows what Alberta's been up to, cashing in non-renewable resource assets to keep taxes enviably low and spending enviably high. Groups from the Canadian Taxpayers Federation to the environmentalist Pembina Institute have warned that unless the province built a massive reserve fund, like oil-dependent Norway's, to sustain itself down the road, at some point Alberta would run short of cash to fund its comfortable lifestyle (currently, the province spends \$1.50 for every buck it collects from non-resource revenue). Most politicians seemed unwilling to believe it. The rest pleaded helplessness. A gargantuan Heritage Fund (Norway's is \$400 billion) would become a sitting duck for covetous politicians east of Lloydminster eager to mooch off their oil-rich cousins, they claimed.

That once sounded believable. It doesn't now that we know Alberta's leaders were handed all the ammo they'd need to fend off raiders from afar by the 2007 Financial Investment and Planning Advisory Commission, led by renowned tax expert Jack Mintz. Struck to consider the case for provincial savings, the commission issued its report in January 2008, yet the Tories sat on it until a pending access to information request forced its release in November. Its conclusion: Sock away billions now, or stick Albertans with fewer services or seriously higher taxes -- like 40% hikes over 20 years.

There's more. Last summer, the commission sent a note to provincial treasurer Iris Evans stating that even now the province already faces \$215 billion in unfunded liabilities -- for health care, pensions and other commitments that it cannot feasibly meet.

That kind of looming obligation, a problem specific to a province built on diminishing royalty revenues, offers a compelling defence for Alberta to keep its piggy bank for itself. Except the Tories, once again, kept the unfunded liability quiet; it only came to light when someone leaked the commission's letter to the National Post in December.

The instincts of Alberta's legislators to conceal the harsh reality of the situation suggests that it isn't greedy easterners they fear as much as the humiliation of admitting they haven't been the brilliant fiscal managers they claimed to be. Once real, if only for a few disciplined moments in the mid-'90s, the Alberta Advantage appears to have since then been built as much on guile as was Bernard L. Madoff Investment Securities. Today's politicians may be eyeing Bernie's strategy: Fake it as long as possible, and hope to check out when the pain finally comes. Governments, too, are lucky to be perishable. Only the Albertan taxpayer has the misfortune of being immortal.