



Becoming Alberta's Next Premier

.....
POLICY IDEAS FOR LEADERSHIP CANDIDATES
.....

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PREFACE

Today Albertans have an unprecedented opportunity to engage in a political discourse with future leaders of this province. With Premier Ed Stelmach's resignation in January followed by Dr. Swann's departure as Liberal leader shortly thereafter, Alberta citizens will be hearing how a new generation of leaders will manage problems the province faces. And there is little doubt that the successful candidates will be facing enormous challenges as Alberta girds itself for another economic boom fueled by a huge investment boom in north-eastern Alberta.

Given this fertile landscape of political activity, the Institute for Public Economics, the Western Centre for Economic Research at the University of Alberta and the Canada West Foundation invited seven policy experts to share their ideas with candidates vying to become ultimately, Alberta's next Premier. The result is a compilation of articles, focusing on seven public policy issues that are important to each of these experts. These essays cover a broad spectrum of public discourse ranging from specific advocacy pieces to questions of Alberta's role in shaping national policies. They all fit within the array of public policy accountabilities that need to be considered by the future Premier if the province is to be a strong economic competitor and good steward of its people and resources. It is the hope of the sponsoring organizations that ideas presented here will influence the policy discussion within the different parties.

The first essay by Professor Ted Chambers speaks in the first person as if he were "Premier for a Day." Chambers uses the concept of the "black swan" as a basis for contemplating the risks and challenges facing Alberta's premier. Questions posed by Chambers touch on Alberta's role as a major international energy producer. But what will the future hold as new transportation and energy technologies unfold? Chambers states: "The one thing the government should not do in meeting

this responsibility is encourage citizens to accept that the future will replicate the past." As a safeguard against unexpected black swans, he recommends consideration of a new Alberta Wealth Fund that would receive half of resource revenue to be managed independently. The other half of resource revenue would be directed at human capital development—education and health services. Professor Chambers courageously recommends that Alberta implement a harmonized GST at a 5% level to provide more stability to Alberta's finances and "avoid the knee-jerk roller coaster of dysfunctional provincial budgets."

Turning to the social policy area, John Kolkman counsels leadership candidates to build on the program to end homelessness and to seek the elimination of poverty. Kolkman urges that changes be made to Alberta taxation policy to piggyback on the existing federal child tax benefit program. Minimum wage legislation is another tool in the province's policy arsenal to assist low income earners. More critical is the need to rethink income support rules that claw-back benefits for low income recipients earning more income. Another suggestion that echoes policy recommendations of the Premier's Council on Economic Strategy is the importance of engaging more Aboriginal Canadians in the labour force. He also challenges governments to facilitate the integration of 58,000 foreign temporary workers as permanent residents.

One theme that constantly runs through these essays and will play out in the policy platforms of the candidates is the appropriate role of the government. Dan Holinda's essay "Alberta's Children Deserve Clean Air" makes the case for a government intervening to protect youth against the harmful effects of tobacco smoke in the confined area of a private vehicle. He cites a range of research that links second hand smoke to a variety of ailments beyond cancer. This perspective brings to the forefront the clash of values

between those who believe “less government is good government” and those that believe the collective, through government, have a role and duty to protect children from harmful acts of adults.

At a more macro level in the health care arena, Professor Mel McMillan examines the debate around whether the Canadian economy can sustain inexorably rising health care expenditures. Commenting on a recent C.D. Howe study by David Dodge and Richard Dion, McMillan questions the seeming rush into making fundamental decisions on health care delivery. When examining the projections of these authors, he concludes that it is both enhancing productivity as well as controlling health care spending that is vital. Productivity growth is essential since it is the basis for determining the size of the overall economy. Parsing the data also shows that, despite the projected growth in health expenditures, future Canadians will still be better off in terms of both health and non-health services.

One of the policy issues that might be termed the elephant in the room—the impact of Alberta’s oilsands on the environment—is discussed by Satya Das, author of *Green Oil*. Das begins with the “presumption that we have a duty of stewardship of our common wealth and sustainability of the common good.” Being the steward of the world’s largest petroleum reserve brings certain responsibilities with it. He recommends a bold plan of diverting one-third of oil royalties from the oilsands to pay for and build a sustainable energy future for the world. Such a long term plan would use the existing facilities of the Climate Changes and Emissions Management Fund. Funding methods would range from venture capital to equity stakes to public-private partnerships.

A second essay examining the energy sector is Robert Roach’s piece about Alberta leading a national conversation on an energy strategy. Roach recommends establishing a strategy that goes beyond the often heard chorus of complaints when gasoline prices rise and resentment towards Alberta builds. He poses several critical questions that Alberta leadership candidates must consider:

How will Alberta’s and Canada’s energy export markets change and what do we need to be doing to prepare for these changes? How will Alberta and Canada be meeting its domestic energy requirements in twenty years? How do we continue to improve environmental stewardship on the part of both producers and consumers?

His essay identifies eight basic themes around energy that should inform and establish an agenda for federal-provincial energy discussions.

The final essay by Bob Ascah looks at the question of whether Alberta Treasury Branches (ATB) should be sold or retained by the provincial government. Noting the significant size of ATB as a homegrown financial institution, he outlines the arguments for and against ATB privatization. Ascah argues that ATB has played a role of economic stabilizer in the past and remains important in rural communities. On the other side, ATB has periodically faced financial problems which the provincial government, as guarantor of ATB’s liabilities, must meet. While taking no position on the question of privatization, he notes that in 2012, the Legislative Assembly will debate the continuance of ATB. He encourages the new Premier to engage the public in a broader public debate about this important Alberta institution.

BOB ASCAH | June 15, 2011



Black Swans & Taxes

BY TED CHAMBERS

“Black swans” seem to be abundant these days. One of my priority jobs as Alberta’s next premier is to reduce the impact of a black swan event on Alberta—to increase the readiness of the province for what has become a riskier world, and this despite the fact that unlike the Roman god Janus, I don’t possess the gift of seeing both the past and the future. How can I best prepare my fellow citizens for a riskier world? For me, some thinking borrowed from the ancient Greeks offers a clue. They conveyed very neatly the problem of the black swan: as we stand in the present, the past is something that stretches out before us while the future lurks behind our back.

Put it this way: thinking inside the box is seeing the past stretching out before us, and who can deny that this is what most of us are prone to do. We don't like to let go of what we have, because we know and value it. But that may mean the future stabs you in the back. So what can my government do about this dilemma?

One scenario "behind our back" is that the world, a generation from now, will continue to produce as much energy from fossil fuels as it does presently and, in these conditions, Alberta will be a major international energy producer. That may in fact turn out to be the case. But, of course, it also may not be the case. Do we have "peak" oil? What will be the acceptance of electric cars as their trip range increases and battery costs fall? How will the reality of climate change be addressed? What about a carbon tax? Will the response to a fossil fuel price bubble foster even stronger efforts to reduce the unit cost of alternative energy sources? Will wind power and solar become more cost competitive? These and many more questions about energy are "behind our back." So I conclude that whether it is the most probable scenario is far from clear; what is clear is that it is not the only scenario.

The challenge I face in developing public policy is what role government should play as the past stretches before us and the future is unknown? One can begin with government's generally accepted responsibility to lay out possible future directions for the economy: what directions are possible and how might they be achieved? Such an exercise needs to emphasize the uncertainty of the future, to outline alternate sets of possibilities, to avoid the trap of simply extrapolating the present, and to reiterate that the fossil fuel sector is a "price taker" very much subject to international demand and supply conditions and to the premium placed on alternatives. This cauldron of countervailing forces may produce a future quite similar to the

past but it may not. In what ways might the future resemble the past, in what ways might it differ? The one thing the government should not do in meeting this responsibility is encourage citizens to accept that the future will replicate the past—even though that may be what the fossil fuel sector itself may expect to hear.

So, one safeguard against a stab in the back is the courage to reiterate time and again that the future is replete with alternative scenarios. What else? It's time to learn from the vision and leadership of Peter Lougheed by once again setting aside a large share of natural resource revenues in a Heritage Fund—an Alberta Wealth Fund. Currently, 4.7 million Norwegians stand with their backs against the future having over US\$500 billion in a Sovereign Wealth Fund—and where are we in Alberta? I will settle for allocating one-half of annual resource revenues to an Alberta Wealth Fund, managed independently at arms length, with the remainder directed at human capital development through education and health services. Accompanying these initiatives are actions to get the provincial tax structure right so that we can avoid the knee-jerk roller coaster of dysfunctional provincial budgets, so much a part of Alberta's history. The research findings on this are clear and I'm proud to say that I've read them. I am going to find the political will to stabilize revenue flows—getting rid of the cuts and the splurges—by introducing a 5% sales tax harmonized with federal GST.

It is impossible to avoid black swans but I believe with these approaches we'll be much better prepared as the future looks over shoulders. If the future is to belong to us, we have obligations to our children and grandchildren. □



TED CHAMBERS is currently a Professor Emeritus at the University of Alberta. He received undergraduate and master's degrees at the University of British Columbia, and a Ph.D. in economics at the University of Nebraska. He has had held academic appointments at Whitman College, Rutgers University, and the University of Montana. He came to the University of Alberta in 1969 to serve as Dean of the Faculty of Business. In 1976 he returned to teaching and research and, from early 1989 until late 2001, served as the Director of the Western Centre for Economic Research. Dr. Chambers has published extensively in the fields of business fluctuations and regional economics and recently designed a Business Sentiments Index for Alberta. His present research interests are primarily in western Canada's economic position in the international economy, and the role of small business in Western Canada.



Invest Strategically in Poverty Reduction

BY JOHN KOLKMAN

Alberta's next Premier should stick with the 10-Year Plan to End Homelessness. This plan is the most visionary social policy initiative of the current government. Now entering its third year, the 10-Year Plan has achieved good results meeting or exceeding most of the interim targets in all of Alberta's major urban centres. Some of this early progress can be attributed to good timing. The plan was launched just as vacancy rates were rising. This made it attractive for landlords to rent to homeless persons knowing the rent would be paid. With the vacancy rates dropping in most Alberta communities, including Edmonton and Calgary, and with rents likely to rise, it will be important for Alberta's next Premier to ensure that sufficient monies are invested to meet the goal of ending chronic homelessness in our province.

In the same way the Stelmach government tackled homelessness, the next Premier should tackle poverty. Though a key component, low income involves more than just having a roof over your head. While this province has been leading the country in ending homelessness, we have been trailing other provinces in committing to reducing poverty. Six other provinces and the three territories are already implementing or have adopted strategies for reducing and eventually eliminating poverty.¹ Housing is the single biggest expense for most low income Albertans. Alberta's next Premier should use the 10-Year Homeless Plan as a template for implementing a comprehensive poverty elimination plan. Like the homeless plan, a poverty reduction plan could include a 10-year timeframe with specific targets and benchmarks to measure progress.

Poverty is a complex problem defying easy solutions. But then so is homelessness. The provincial government could be doing much more. Here are some of key policy measures that could form part of a comprehensive poverty reduction plan.

The introduction of a refundable Alberta Child Tax Benefit would be the single most effective measure to reduce child and family poverty. By piggy-backing on existing federal child tax benefits, there would be no additional administrative cost. Unlike social assistance, child tax benefits do not discriminate based on source of income, so working poor Alberta families also qualify. Moreover, the level of child tax benefits are based solely on income as reported on a yearly tax return. Social assistance can keep low income people trapped in poverty by requiring them to sell assets like their homes or vehicles before they are eligible to receive assistance.

Another key policy measure is rewarding work. According to the most recently available data, 54% of children living in poverty in Alberta had a parent or parents who worked full-time for a full-year.² One way to reward work is to raise and restore the indexing of the minimum wage. In June 2006, Premier Stelmach took the positive step of indexing the minimum wage to the average earnings of Albertans only to freeze it two years later. The June 1, 2011 announcement of a reinstatement of predictable annual increases to minimum wage is therefore welcome. To further reward work, the next Premier should enhance the existing earned income tax credit (which provides a refundable tax credit to supplement the employment earnings of low income workers) by broadening eligibility to not only include families with children but also singles and childless couples.

For those Albertans not able to work, Alberta's next Premier needs to index major income support programs to levels at least matching the cost of living. Indexing means low income Albertans won't slip into poverty due to rising living costs. Income support programs include Alberta Works (social assistance), Assured Income for the Severely Handicapped (AISH) and Alberta Seniors Benefit programs.

The government also needs to stop penalizing people on income support who work to supplement their income. For example, a single Albertan can only earn \$115 per month and a single parent \$230 per month before being subject to a 75% clawback in their Alberta Works benefits.³ A worthwhile first step would be to increase the Alberta Works earnings exemption to \$400 per month and the clawback to 50%. These are the levels currently in place for AISH recipients.

¹ Edmonton Social Planning Council, *Time for Action*, November 2010, pages 10-12. Retrieved from: http://www.edmontonsocialplanning.ca/images/stories/pdf/time_for_action.pdf

² Statistics Canada (2010). Custom Tabulations. Survey of Labour Income and Dynamics Masterfile.

Alberta's next Premier needs to reduce reliance on importing temporary foreign workers to address labour shortages. Instead, two things need to happen. The first is to focus on better utilizing the skills of groups currently underrepresented in the paid labour force. This includes Aboriginal Albertans, people with disabilities, newcomers with foreign credentials, and immigrants who are already here.⁴ The second is to recognize that most temporary workers, especially those in low and semi-skilled jobs, want to stay. Requiring them to leave would be bad for the economy. There were 58,000 temporary foreign workers in Alberta as of December 1, 2010.⁵ The number of temporary foreign workers in Alberta is roughly equal to the population of the City of St. Albert. The Alberta Chamber of Commerce recently added its voice to those calling for temporary foreign workers to be given the choice of becoming permanent Alberta residents.⁶

Alberta's next Premier will face many challenges but also many opportunities. Alberta's current Premier faced a sharp economic downturn shortly after winning his first mandate leading to a reversal of some promising social initiatives early in his tenure. Alberta's next Premier inherits an improving economy and likely a return to surplus budgets, allowing room for strategic social investments to be made. There would be no better investment than a concerted attack on poverty in this province. An investment that would pay future dividends by reducing costs in such areas as the health, child protection, and corrections. □



JOHN KOLKMAN is the Research Coordinator for the Edmonton Social Planning Council, a non-profit social research organization that focuses on finding solutions to poverty and low income challenges. Since joining the Council in May 2006, John has worked on social policy issues including poverty, wealth and income inequality, removing employment barriers for those with low and modest incomes, social determinants of health, affordable housing, neighbourhood revitalization, and measuring social value.

³ Alberta Employment and Immigration, *Alberta Works Guide*, page 16. Retrieved from: http://employment.alberta.ca/documents/AWonline/aw_yourguide.pdf

⁴ For instance, the report on *Shaping Alberta's Future* urges the province to set a target to achieve parity in educational outcomes for young Aboriginals (page 74). Retrieved from: http://alberta.ca/acn/201105/RPCES_ShapingABFuture_Report_web2.pdf

⁵ Citizenship and Immigration Canada, *Facts and Figures 2010*. Retrieved from: <http://www.cic.gc.ca/english/resources/statistics/facts2010-preliminary/04.asp>

⁶ *Edmonton Journal*, April 1, 2011. Retrieved from: http://www.edmontonjournal.com/story_print.html?id=4539284&sponsor=



Alberta's Children Deserve Clean Air

BY DAN HOLINDA

Every child has a right to good health and to breathe clean air. By enacting legislation in Alberta to prohibit smoking in vehicles carrying children under the age of 18, the province's next Premier would be protecting more children from the dangers of second-hand tobacco smoke.

World health authorities agree that children experience negative health effects from exposure to second-hand smoke, including respiratory illnesses like coughs, pneumonia, and asthma. Such exposure increases the risk of sudden infant death syndrome (SIDS), or crib death, and can also lower a child's cognitive abilities.

Protecting children from second-hand tobacco smoke is critical because children are more severely affected by exposure to second-hand tobacco smoke than adults. This is due to the fact that they are smaller, and have immature immune systems and higher respiratory rates. In addition to increasing the risk of respiratory illnesses and SIDS, second-hand tobacco smoke has also been linked to leukemia, brain and other childhood cancers.¹

While overall exposure to second-hand tobacco smoke in public places is decreasing, children are still at risk in private homes and vehicles. As the list of public places prohibiting smoking grows, parents and caregivers may be viewing the alternatives of their homes and vehicles to be among the few places where they can smoke. Being that infants, children, and young people in general are less able to guard themselves against exposure to second-hand tobacco smoke, it is important that policy is in place to protect them.

Second-hand smoke is clearly an issue for our youngest and most vulnerable citizens in any setting. However, vehicles stand out as a particularly troublesome environment because they are almost completely air-tight, confined spaces where tobacco smoke is more concentrated and not well ventilated. The toxic chemicals emitted by tobacco products remain in the vehicle, even when the tobacco product is no longer burning.

No amount of second-hand tobacco smoke is safe. It is a complex mixture containing more than 4,000 chemicals, of which more than 50 are known carcinogens.² Second-hand tobacco smoke causes premature death and disease in both adults and children. Those exposed to second-hand tobacco smoke for long periods of time are more likely to develop and die from heart disease, respiratory problems and lung cancer. It is estimated to kill more than 1,000 Canadians every year.³

Despite the fact that levels of second-hand tobacco smoke in vehicles can be far higher than levels even in smoky bars, the children of this province are not protected in private vehicles by legislation. The smoking of a single cigarette in a car causes alarming increases in air contaminants known as RSPs—respirable suspended particles—and carbon monoxide within five minutes.⁴ Even short exposure to second-hand tobacco smoke can trigger an asthma attack in children while affects on lung health have a long-term impact.

Second-hand tobacco smoke is a major, preventable contributor to acute and chronic health issues affecting all Albertans. Research indicates that the predominant source of second-hand tobacco smoke exposure for children is domestic.⁵ Introduction of new province-wide legislation would go a long way in minimizing that exposure and improving the health of Alberta's children.

¹ U.S. Department of Health and Human Services. *The Health Consequences of Involuntary Exposure to Tobacco Smoke: A Report of the Surgeon General*. 2006.

² www.cancer.ca. *Second-hand Smoke is Dangerous*. http://www.cancer.ca/Alberta-T/Prevention/Quit%20smoking/Secondhand%20smoke.aspx?sc_lang=en&r=1. Access July 2010.

³ Ibid.

⁴ Rees Vaughan W and Connolly Gregory. "Measuring Air Quality to Protect Children from Secondhand Smoke in Cars". *American Journal of Preventative Medicine*. 2006.

⁵ Ibid.

Albertans overwhelmingly support smoke-free vehicles carrying children under the age of 18, according to a 2008 Environics poll. The research found that 81% of Albertans and 82% of Canadians agree that smoking should be prohibited in cars transporting children and youth under the age of 18.⁶

When you look at similar legislation across Canada, it's clear that Alberta is lagging behind. Laws prohibiting smoking in cars carrying children have already been adopted in the Yukon and in the provinces of British Columbia, Saskatchewan, Manitoba, Ontario, New Brunswick, Prince Edward Island, and Nova Scotia. Newfoundland and Labrador has introduced legislation scheduled to take effect in May 2011. Quebec is currently considering such legislation.

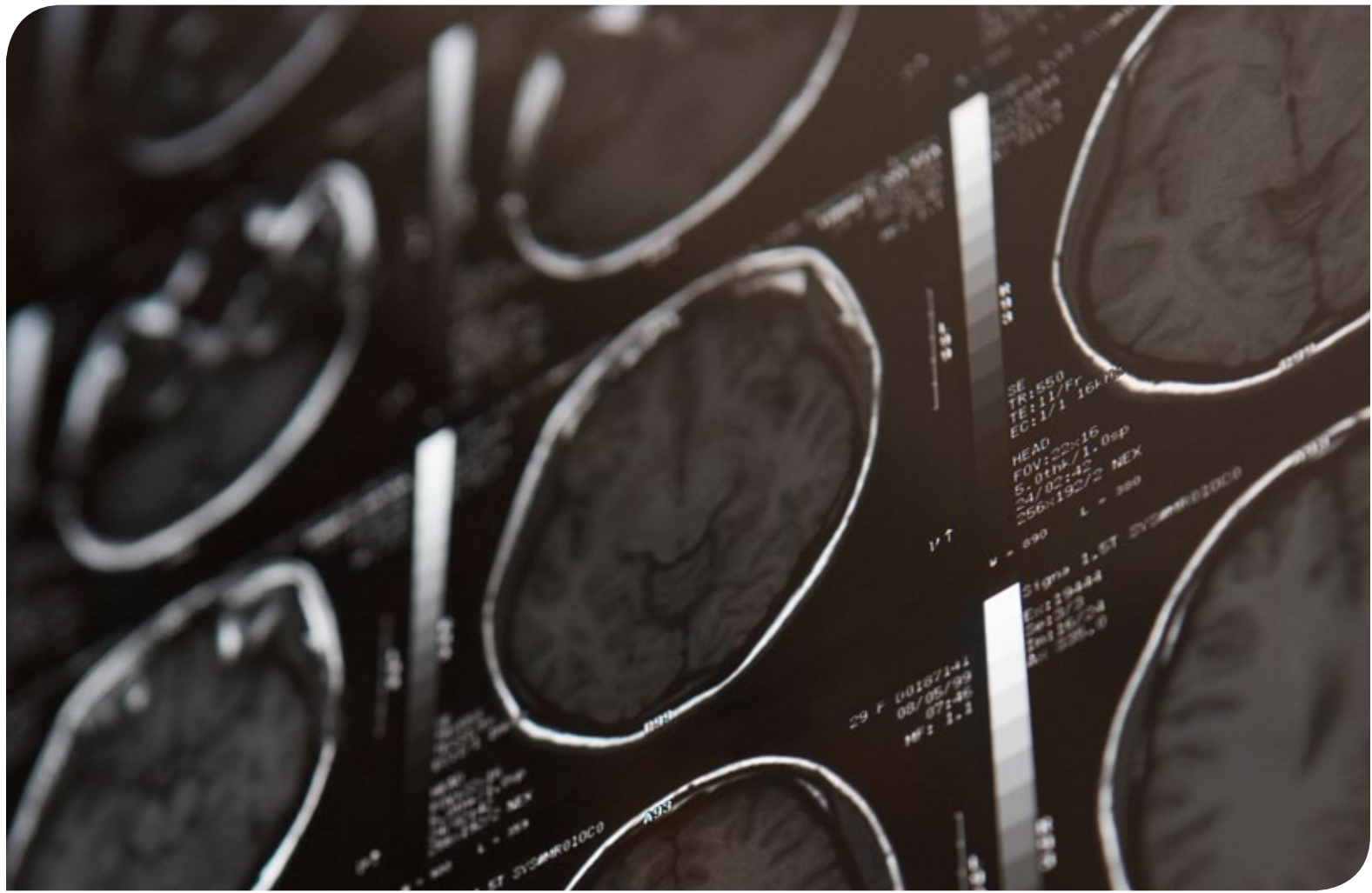
In Alberta to date, there are only three jurisdictions—Athabasca, Leduc and Okotoks—that have smoke-free vehicle bylaws protecting youth. Medicine Hat has all but passed a similar bylaw.

It's time that new provincial leaders clear the air for the rest of Alberta's children. □



DAN HOLINDA has served as the Executive Director of the Alberta/NWT Division of the Canadian Cancer Society since 2002. The Society, comprised of 10 divisions nationwide currently operating with a \$190-million budget, is working to eradicate cancer and enhance the quality of life for people living with cancer. Mr Holinda provides senior strategic leadership and performance management within the local division, in addition to lending key executive leadership at the national level. Prior to his current position, Mr Holinda served in senior leadership roles at the Calgary Health Region and AIDS Calgary. He holds a Bachelor and Masters of Social Work from the University of Calgary.

⁶ Environics Research Group, Canadian Cancer Society, *Attitudes Toward Banning Smoking in Cars*. January 2008.



Dodge and Dion's
“Healthcare
Spending
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Also A Good News Story

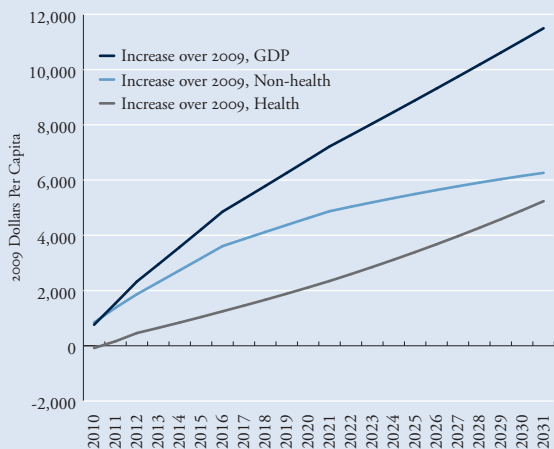
BY MEL MCMILLAN

Alberta's next premier will be confronted with a multitude of issues from the environment to industrial policy and, yes, healthcare. The magnitudes of health care expenditures, especially those of governments, and the potential impacts of population aging are a prevailing public policy concern. David Dodge, former Governor of the Bank of Canada, and Richard Dion, of Bennett Jones LLP, have shed considerable light on the magnitude of the issue and they present a balanced perspective on the options before us in their recent C.D. Howe Institute paper entitled “Chronic Healthcare Spending Disease.”^{1,2}

¹ David A. Dodge and Richard Dion, “Chronic Healthcare Spending Disease: Background and Methodology”, C.D. Howe Institute Working Paper, No. 327, April 2011.

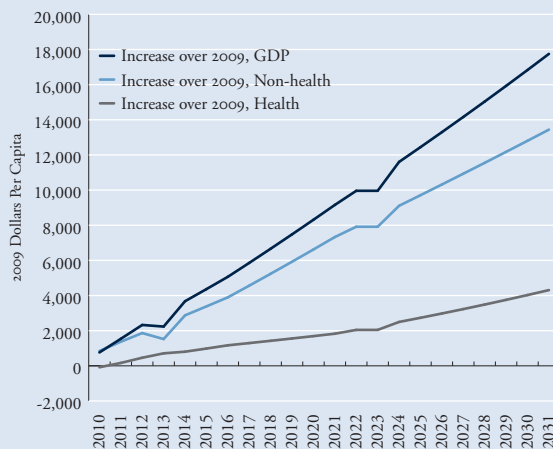
² Dodge and Dion analyze national data but healthcare is especially a provincial issue and no less so in Alberta.

Figure 1: Growth in Real Per Capita GDP, Health and Non-Health Expenditure, 2010-2031 (2009 Dollars): Base Case



C.D. Howe Institute Working Paper, April 2011

Figure 2: Growth in Real Per Capita GDP, Health and Non-Health Expenditures, 2010-2031 (2009 dollars): Optimistic Case



C.D. Howe Institute Working Paper, April 2011

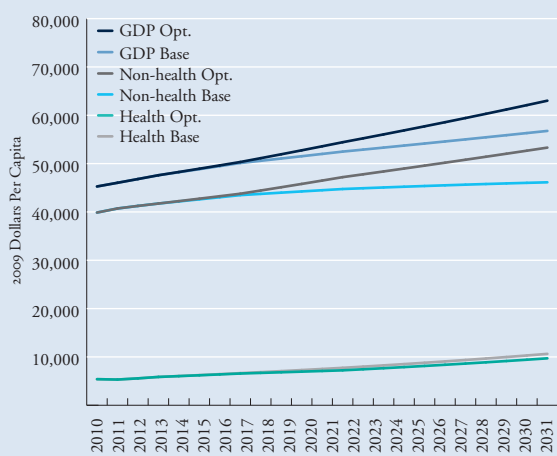
The media response to their report has emphasized the growth in health expenditures that Dodge and Dion predict—from 11.9% of GDP in 2009 to 15.4 or 18.7% in 2031—and the difficult choices before us. For example, “Health Care ‘Spending Disease’ Threatens Canada,” “Cuts, Sacrifices Ahead as Health-Care Cost Set to Spike,” “Health-Care System Needs Major Surgery.” That response is hardly surprising and was likely intended given the title of the report. Those seeking dramatic and even drastic “reforms” will use the obvious themes of the Dodge and Dion report as supporting evidence. However, there is important information in the report that has been overlooked in selective or casual reading.

The additional information in Dodge and Dion needs attention because it provides a better perspective on the healthcare problem. Expected trends in healthcare expenditures are valuable but Dodge and Dion put those in the context of projected growth in output and incomes. Here, I use the Dodge and Dion data (kindly provided by them) to demonstrate aspects of their report that have gone unnoticed.

Dodge and Dion project the growth in per capita GDP and non-health expenditure as well as the growth in per capita health expenditure from 2010 to 2031. They do so for two cases—a base case and an optimistic case. The base case projects current trends. The optimistic case assumes increased labour force participation by those over 55 and improved productivity growth. The results in real (2009 dollars) are shown in Figures 1 and 2.

Figure 1 depicts the base case. There, by 2031, healthcare expenditures are projected to increase by \$5,235 (2009) dollars per capita. Even in the optimistic case, Figure 2, they increase \$4,310 per capita. Viewed in isolation, such large changes appear ominous and, naturally, attract attention. However, output per capita also grows. Real GDP per capita is projected to increase by \$11,496 in the base case and by \$17,750 in the optimistic case. The consequences of healthcare expenditure growth are revealed clearly in the trends of non-health expenditures. In the base case, that is \$6,261 per capita greater by 2031 and, in the optimistic case, \$13,440 more.

Figure 3: Comparison of Base and Optimistic Cases: Real Per Capita GDP, Health and Non-Health Expenditure, 2009-2031 (2009 dollars)



C.D. Howe Institute Working Paper, April 2011

A comparison of the base and optimistic cases is provided in Figure 3. Real healthcare expenditures are expected to increase from \$5,397 per capita in 2009 to \$10,632 in the base case and to \$9,707 in the optimistic case. The difference between the two is non-trivial (under 10 percent) but not huge. Far more important is the difference in the GDP trends. In the base case, real per capita GDP is expected to grow from \$45,266 to \$56,762 (by 25 percent) and, in the optimistic case, to \$63,015 (by 39 percent). The implications for non-health expenditures are that they are predicted to increase from \$39,899 to \$46,130 per capita in the base case and to \$53,308 in the optimistic case.

What is critical, more than the growth of healthcare outlays, is the growth of GDP. If GDP per capita grows slowly, healthcare will take a larger bite (e.g., 18.7 vs 15.4% in 2031) out of our incomes and leave less for spending on other things.³ If national output

grows as under the optimistic scenario, Canadians have \$13,440 more per capita by 2031 to devote to non-health goods and services (one-third more than today) but, if slower growth prevails, the increase will only be \$6,261 (about one-sixth more).

It is important to monitor and manage our healthcare resources and to spend carefully and effectively but even more important is to strive towards improving productivity and output growth.

In the future, Canadians can expect to be economically better off than today and, by 2031, probably much better off. Yes, we will be spending more on healthcare but we will also be spending more, possibly much more, on non-health. Perhaps, with continuing improvements in healthcare, we will be satisfied with the split that evolves.

If not satisfied, Dodge and Dion outline the range of (potentially difficult) choices. But there is no need to make hasty choices. Especially with our wellbeing improving, we should not be pressured but (as always) carefully consider the alternatives. For example, some press for expanded private provision. But, at 30%, Canada's private share of healthcare spending already exceeds that found in many countries that are held up as examples of greater private involvement (e.g., Austria, France, Germany, United Kingdom). Furthermore, given the sources of pressures for private options, what is the probability of such "reforms" leading to the something closer to the United States model (a sad outlier in terms of both expenditures and health outcomes) or to one more like the superior European alternatives?⁴ Also, considering that the model European countries have health expenditure to

³ The importance of GDP growth (changes) is reflected in the fact that healthcare expenditures increased to 11.9 percent of GDP in 2009 from 10.5 percent in 2007 due to the 2008-09 recession.

GDP levels similar to our own, can we expect much saving? Or, is it simply about who profits or who gets a larger share of health resources? As Dodge and Dion point out, there may be difficult choices. Those demand an “adult discussion,” careful assessment and realistic expectations.

When approaching the healthcare file, Alberta’s future premier should bear in mind:

- Our future wellbeing will depend more on enhancing productivity than on controlling healthcare spending. Pay attention to both.
- Future Canadians will be better off in terms of both health and non-health services. The growth of healthcare spending is not making us worse off. It is not eating our lunch.
- There is no need to make hasty decisions about healthcare “reform.” Let Canadians continually monitor, examine and assess potential improvements, and make informed decisions within the experience of evolving evidence and circumstances. □



MELVILLE MCMILLAN is a Professor in the Department of Economics and a Fellow of the Institute of Public Economics at the University of Alberta. He has degrees from the University of Alberta and Cornell University and was on the faculty of the University of Wisconsin (Madison) prior to joining the University of Alberta in 1975. McMillan served as Chair of the Department from 1987 to 1997. His academic interests, publications and advising are in public economics and fiscal federalism.

⁴ See, for example, Conference Board, “Hot Topic: Health Spending” at www.conferenceboard.ca/hcp/hot-topics/healthSpending.aspx and David Cutler and Dan Ly, “The (Paper) Work of Medicine: Understanding International Medical Costs,” *Journal of Economic Perspectives*, Spring 2011, 3-25.



Alberta's Destiny:
**Clean
Energy**
to Benefit the World

BY SATYA DAS

Our next Premier needs to engage Albertans in an “adult conversation” about energy and the environment, and Alberta’s potential to leverage our energy wealth for the betterment of the world.

This conversation between and among citizens can’t be avoided any more. It’s up to us, because our political class remains mired in the daily demands of governance, scarcely able to focus on policy that extends beyond the electoral term.

What then is Alberta’s appropriate role? The world is fuelled by crude oil. And Alberta is the world’s largest oil reservoir. Our next premier must begin from the reality that we are a democratic petro-state unlike many other oil-exporting countries.

Let's start with numbers. Alberta has 1.7 trillion barrels of original oil in place. That's the largest hydrocarbon deposit in the world. Yes, but you can't get all of it out, and it's both environmentally damaging and costly to extract. Right and right again. Yet of that deposit, 300 billion barrels is recoverable under current technology. And of that amount, about 179 billion barrels can be extracted for significant profit at today's market rates.

Within three years, improvements in technology will make us the largest proven and audited oil reservoir on the planet, as opposed to the unproven and unaudited claims of Venezuela and Saudi Arabia. With the world addicted to fossil fuels, even if that addiction eases with conservation and lower consumption, we will be thrust into the unusual and unaccustomed position of global energy leadership. So what are we going to do about it, once it becomes abundantly clear to the political and media class that there is no easy escape in spurning the big-ticket win in the geological lottery? That's the conversation our next Premier needs to provoke. What does that mean in terms of our planetary obligations?

We start with the presumption that we have a duty of care to the planet, a duty of stewardship of our common wealth, and sustainability of the common good. Energy development with scant regard for consequences is as unpalatable as a sudden and immediate halt to the fossil fuel economy.

We need much cleaner production from our oil sands. But even more, we need to use the energy wealth that production generates, to pay for and help to build the green and sustainable energies of the future. That's the only viable answer to the impasse evident at Copenhagen: the developed world that played fast and loose with the environment as it enriched itself now telling the developing world it must stay poor for the sake of the planet.

This hypocrisy is rightly seen as a morally bankrupt position. It is our role as Albertans and Canadians to show moral, ethical and fiscal leadership as stewards of the world's largest oil reservoir—in funding the sustainable and abundant energy the rest of the world needs to have even a modicum of our standard of living.

My book *Green Oil: Clean Energy for the 21st Century?* asks citizens to grapple with this provocation: We are at least two decades away from any viable alternatives that would comprehensively replace fossil fuels as the planet's primary energy source. While we pursue those alternatives, we can make our production and use of fossil fuels more sustainable and less damaging to the biosphere. Thus our aspiration changes from the sloganeering of being best *in* the world to the higher aspiration of being the best *for* the world.

Even as we develop our energy resources, we must be seen to be models of democracy, of pluralism, of inclusive and welcoming societies. We must demonstrate that our duty of care really brings out the best in the human spirit in all of us. Through our actions, we can pursue a sustainable life not for just the citizens of our democracy but for the entire planet.

We know that it is challenging to be good stewards of the environment while growing the economy but we are willing to do what it takes to get there.

Alberta, the owner of the resource, only has 3.8 million people. We are stretched to fulfill the duty of care that appropriate development demands. This is where we need collaboration and co-operation with global pools of talent, innovation, ingenuity, technological prowess, and capital to move forward. A clean environment and a robust economy must be complementary goals. Environment and economy are really two sides of the same coin: yet to act on the implications of this insight, we will need a level of leadership so far lacking in Alberta.

Our next premier must lead that reasoned transition, to being a responsible and dynamic energy superpower that will use our oil wealth to launch the greening of the planet we share.

Accordingly, I recommend that:

1. Alberta's next premier commit to using at least one-third of all royalties derived from the oil sands, to pay for and build a sustainable-energy future for the world.
2. This objective to be achieved over a 20- to 30-year timeframe. As a starting point the Climate Change and Emissions Management Fund should be the vehicle. Working from projections of synthetic crude oil/bitumen royalties of \$7 billion in 2012, Alberta should commit a minimum of \$2 billion a year to this fund. The commitment quantum should be set at one-third of the annual synthetic crude oil/bitumen royalty.
3. Funding can be on individual or agglomerated projects in such key sectors as bio-economy, nanotechnology, renewable energy. Funding should be flexible: from angel investment and venture capital, to equity stakes and public-private partnerships.
4. This 25-year commitment on Alberta's part should be accompanied by mandatory best practices and fiscal incentives for early adopters in all relevant enterprises and ventures under Alberta jurisdiction. ■



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Alberta Should Champion the Creation of a Canadian Energy Strategy

BY ROBERT ROACH

What is Alberta's role in confederation? What steps should a new Alberta Premier be taking in inter-governmental affairs?

In Texas, past injustices are summed up by the rallying cry "Remember the Alamo!" In Alberta, it's "Remember the National Energy Program!" The NEP was imposed by the Trudeau government in 1980 and cut the knees out from under the Alberta oil patch. Some will argue that it wasn't just the NEP that caused the economic turmoil, but one thing is crystal clear: it certainly didn't help. For this reason alone, it is an example of bad public policy.

So when someone suggests that Canada needs a national energy strategy, Albertans get a bit nervous. Luckily, a Canadian energy strategy has nothing to do with the past evils of the NEP. In fact, it is something that the province should not only support, but help lead.

Unlike the NEP, the goal of a Canadian energy strategy is not to lessen the cost of energy for some parts of the country at the expense of others. Rather, the idea is to have a practical plan in place that can ensure that *all* parts of the country benefit fully from their energy resources over the long-term and have access to inexpensive, reliable and environmentally sustainable energy. At the heart of this is the conviction that we can leverage Canada's energy opportunities and strengths in a manner that positions the country for a secure and prosperous future—economically, environmentally and socially.

How will Alberta's and Canada's energy export markets change and what do we need to be doing to prepare for these changes? How will Alberta and Canada be meeting its domestic energy requirements in twenty years? How do we continue to improve environmental stewardship on the part of both producers and consumers? How do we drive innovation and adoption of new technology? How do we maximize the benefits of coordination across jurisdictions? Answering these and similar questions is what a Canadian energy strategy would do via a consistent set of principles and policies developed—not from the top down in Ottawa—but as the result of a truly *national* dialogue.

Although ensuring the development of a Canadian energy strategy is not currently a burning issue being discussed around water coolers, it is still a good idea to check in with the public to get a sense of how it sees the matter. The Canada West Foundation

commissioned Environics Research Group Limited to ask Albertans if they think that the energy challenges facing the country are best addressed by way of a single national energy strategy, a western Canadian regional strategy or each province developing its own unique energy strategy.

The results show that Albertans are not of one mind on this issue with 35% on side with a national approach, 28% thinking that regional cooperation is the best way forward and 32% thinking that unique provincial strategies make the most sense (5% said that they don't know). Given how much Alberta suffered the last time “national” and “energy” were combined in a major federal initiative, it is a bit surprising that a national approach appeals to over a third of survey respondents. Nonetheless, the majority of Albertans favour something closer to home in the form of a regional or provincial energy strategy. There is still some convincing to do!

The national approach is preferable to individual provincial approaches in this instance on the grounds that effective energy policy requires substantial inter-jurisdictional coordination. The energy system cannot be successfully managed from within provincial borders. However, we also take to heart that Albertans see great value in local approaches that take into account unique circumstances and priorities. For this reason, there has to be strong and ongoing provincial input at all stages of a Canadian energy strategy.

Indeed, the failures of the NEP teach us that strategies that pit one region against another for partisan political gain or ignore the needs and concerns of key stakeholders will fail. They also teach us that if we are to have an effective Canadian energy strategy, it must be a truly national affair with all parts of the country contributing to it and benefiting from it.

Eight Initial Pillars of a Canadian Energy Strategy

Between 2009 and 2011, a wide range of voices from the business sector, environmental organizations and think tanks have called for reform of Canada's energy policy framework to address a broad set of energy and environmental challenges.

The overarching conclusion of the conversation so far is that we need a Canadian energy strategy, and we need it now. However, while this hard-won agreement is a critically important point of departure, it does not take us very far. Agreeing that we need "a strategy" without sketching in what that strategy looks like is at best a modest start.

Fortunately, eight basic themes emerge from the work done over the past two years:

- Embrace Canada's diverse mix of energy options and provincial jurisdiction over natural resources as strengths.
- Ensure robust environmental stewardship.
- Put a price on carbon to reduce greenhouse gas emissions.
- Transform the demand side of the energy system to capitalize on more efficient use of energy.
- Strengthen Canada's position in the world through market diversification, foreign investment and leadership on open trade and environmental standards.

- Promote energy security in the North American context.
- Drive innovation and technological development in pursuit of more efficient and greener energy systems.
- Understand that a strategy is an ongoing dialogue rather than a static document.

These themes provide the essential foundation for the work to come and a rough framework within which a diverse range of values, interests and objectives can be located.

The next step is to ensure that the momentum of the last two years is not lost. Multiple complementary strategies for advancing the quest for a Canadian energy strategy are needed. These include promoting a focused intergovernmental process, pulling together and synthesizing input from a wide range of stakeholders, and fostering public debate.

As the country's oil and gas powerhouse, Alberta has a lot at stake with or without the existence of a Canadian energy strategy. Being a lead player in such a strategy, however, is a good idea because it provides an opportunity to proactively shape national policy and ensure that Alberta's expertise is utilized. ▣



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Should Alberta Treasury Branches Be Sold? Pros & Cons

BY BOB ASCAH

While it is unlikely that Alberta Treasury Branches' (ATB) status will become a contested issue for the leadership hopefuls in the Progressive Conservative, Liberal or Alberta parties, the financial significance of ATB to Albertans is not trivial. ATB has 167 branches and 131 agencies in 242 Alberta communities, (making it a significant landowner or renter), employs about 5,400 Albertans, serves about 680,000 Albertans and has net loans outstanding of \$24 billion to Alberta homeowners, businesses and farmers.¹ From a taxpayers' perspective, the Government of Alberta guarantees all liabilities of ATB including \$23.4 billion in deposits and wholesale borrowing. ATB is a very significant investment by Alberta's taxpayers.

¹ ATB Financial, *Annual Report*, March 31, 2011, p. 112.

The Case for Continuing Public Ownership

There are a number of arguments for governments to own commercial businesses—whether oil companies or financial institutions.

1) WINDOW ON INDUSTRY

The “window” on a strategic industry argument holds that periods of industry instability justifies government entry into business. Ownership would allow government to better understand the industry and to create more competition where competition is viewed as weak. Financial services are a strategic industry since the economy depends on a well-functioning financial system that matches lenders and investors with borrowers. ATB was the gambit of the Social Credit government in 1938, Alberta Gas Trunk Line in the 1950s, and Alberta Energy Company for the Progressive Conservatives in the 1970s.

2) ECONOMIC STABILIZER

Besides being a financing alternative and a window on the industry, ATB played a vital role in back-stopping the Alberta economy in the 1980s. Faced with a 75% drop in oil prices, very low natural gas prices, collapsing real estate prices, and collapsing Alberta financial institutions (credit unions, Alberta-based banks and trust companies), ATB's balance sheet grew by about \$4 billion while the national banks reduced lending by up to \$11 billion.² ATB's credibility with the business community grew as a financing vehicle that helped Alberta businesses through the downturn.

Absent ATB, it could be argued that the 1980s downturn could have been more severe.

3) INNOVATION

Public ownership includes the ability to introduce innovations: ATB was an early developer of both telephone banking and of an equity-linked GIC.

4) REMOTE COMMUNITIES

During the late 1990s and early 2000s, as chartered banks left rural communities, ATB, with less demanding financial return objectives,³ could fill the void. Many rural Albertans feel a strong affinity with “the Treasury Branch” in their communities and it is difficult to imagine ATB closing branches or agencies in remote communities.⁴ As well, stable employment with the Treasury Branch in very small communities adds some stability to the local economy.

5) AUTONOMOUS CREDIT POLICIES

A common policy objective for state-owned financial institutions is to increase credit availability to businesses, especially small business. To the extent that ATB's credit policies *differ* from the major banks, more options exist for commercial and retail borrowers. A related point is whether the quality of local credit decisions for credit is superior from an economic efficiency perspective. Quantitative analysis on this question would be difficult as chartered banks do not break down loan loss provisions by province.

² Alberta Treasury Branches, *Annual Reports*, 1980-1990 and Bank of Canada, *Chartered banks, regional distribution of assets and liabilities*, 1980-1990.

³ *Memorandum of Understanding* between with the Minister of Finance and ATB, November 23, 2003, superseded by Alberta Treasury Branches, *Mandate and Roles Document*. Section I.A.5 reads “ATB shall *foster competition for financial services throughout Alberta to promote access to financial services* and strong financial services providers by operating on sound financial institution principles *with the objective of earning a return that is fair in the context of its Mandate* and the broad strategic policies and level of risk agreed to by the Minister and ATB.” (emphasis added)

⁴ If ATB chooses to close a branch or agency, ATB must follow a process mandated by the Government. *Mandate and Roles Document*, Appendix B-Framework for Closing Branches or Agencies. Given technological changes in the financial system and improvements in road systems and telecommunications, one could argue that branch locations are less important than 73 years ago when ATB was established.

The Case for a Sale

The main arguments for the sale of ATB fall into two broad categories—financial exposure to the province and favourable regulatory treatment by the government.

1) FINANCIAL RISK

In the early 1990s, the institution was wracked with allegations of financial and ethical miscues associated with large commercial loans or loan guarantees contracted in the 1980s. A new board and management were forced to set aside nearly \$200 million on a balance sheet that had no equity to cushion losses.⁵

2) PRINCIPAL-AGENT AND MORAL HAZARD⁶

ATB is an “agent of the Crown.” This means that the liabilities of ATB, principally its deposit liabilities, are liabilities of the Government of Alberta. One of the main causes of the global financial crisis was the risk-taking activities of Wall Street banks, who believed that Washington would never let a major bank fail. This attitude led to high risk behaviours that were encouraged by compensation systems which ultimately caused the demise of firms like AIG, Merrill Lynch and Lehman Brothers. Simply put the incentives and risk tolerance of the agent (ATB) may be different from the incentives and risk tolerance of the principal (Government).

3) FINANCIAL PERFORMANCE

Privatization advocates maintain that the operation of public enterprises in commercial sectors, such as financial services, tend to be less efficient when compared with shareholder-owned organizations. While ATB was inefficient compared with private sector competitors prior to the 1996 and 1997 reforms, post-1997 performance saw an improvement in the efficiency of the institution. However, apart from improvements in the 1998-2002 periods, efficiency ratios show that ATB is perhaps 10 per cent less efficient than its competitors. While the “rural mandate” can explain part of the difference, it does not fully explain a current efficiency ratio of 74%, compared with the banks around 45-60%, for their personal and commercial banking operations in Canada.⁷

A second common metric used for financial institutions is return on equity (ROE). Canadian banks are very profitable institutions operating in what economists might regard as an oligopolistic market. Overall, Canadian banks in the post-crisis environment would earn about 14-18% return on the equity of investors after tax. ROEs for Canadian banking operations run even higher often over 30%.⁸ For the past three years of audited results, ATB’s return on equity has ranged from less than 1% to 10%.⁹ Clearly, from a strict financial point of view, ATB’s rate of return would cause dispassionate investors to sell this investment in favour of assets earning higher returns.¹⁰

⁵ Alberta Treasury Branches, *Annual Report*, 1997, p. 25. In subsequent years, some of these losses were offset by sales of assets above their book value.

⁶ See Frank Atkins, “The Role of Alberta Treasury Branches in the Alberta Financial Market”, Frontier Centre for Public Policy, Policy Series No. 103 • APRIL 2011, p. 4.

⁷ ATB Financial, *Annual Report*, March 31, 2011, p. 42. For example in the first quarter of 2011, BMO’s efficiency ratio for its personal and commercial banking was 54.7%. TD Canadian banking ratio was 47.1% and National Bank’s efficiency ratio for its Canadian banking operations (concentrated in Quebec) was 57%.

⁸ For fiscal years ended October 31, 2010, RBC’s Canadian division earned an ROE of 35.6%. Comparable measures for other banks are: Scotiabank -27%, TD -33.4% and BMO-27.6%.

⁹ Alberta Treasury Branches, *Annual Report*, 2011, p.42.

¹⁰ Atkins, “The Role of Alberta Treasury Branches in the Alberta Financial Market”, Frontier Centre for Public Policy, Policy Series No. 103 • April 2011, chart on p. 21.

Another source of financial risk facing Alberta taxpayers are the \$64 million in cumulative losses taken by the Investor Services division.¹¹ The division has turned a profit in only one year since 2003 and has reported losses of \$13.3 million in fiscal 2011.¹² Privatization advocates would question the need for ATB's presence in this market where there are thousands of mutual funds and hundreds of fund companies.

4) CREDIT RISK

Credit risk is managed through detailed credit and investment policies and through diversification. ATB invested over \$1.2 billion of depositors' and investor services clients' money in "third party (non-bank) asset backed commercial paper." In August 2007, ATB purchased \$255 million in distressed commercial paper from its Investors Services subsidiary.¹³ In addition, ATB held over \$1 billion of the impugned paper for its own liquidity pool. As of March 31, 2011, the face value of these investments was \$1 billion but valued at \$638 million.¹⁴

5) OPERATIONAL RISK

Another risk of government ownership is how well management controls operational risk such as on-line banking, ATMs, and tellers' computer systems.

In 2010, the Auditor General reported that ATB's new banking system was over a year late in being delivered with costs approximately double the original estimate.¹⁵

6) FAVOURED STATUS

Privatization proponents argue that the special benefits of Crown corporations create an unfair advantage over their private sector competitors. ATB's advantages include a 100% deposit guarantee (also enjoyed by Alberta's credit unions); non-taxable status (although ATB pays a 23% "business charge" or proxy for a tax which is then converted into subordinated debt and treated as capital)¹⁶ and a favourable capital adequacy regime that provided ATB \$600 million in "notional" capital and treats certain types of deposits as capital.¹⁷

While Alberta's economy has experienced pretty stable and often very strong growth since the early 1990s, prudent risk management by the new Premier suggests that the policy mandate and ownership options around ATB be reviewed. Under the *Alberta Treasury Branches Act*, a legislative debate is required every five years to discuss the merits of ATB's continuance. In early 2012, Alberta's next Premier should encourage an open, public debate about the future of this important Alberta institution. ■

¹¹As disclosed in segmented information from fiscal 2004-2011. At March 31, 2010, ATB Securities Inc. had an accumulated deficit of \$26.8 million; ATB Investment Management Inc. had \$4.1 million in retained earnings; and ATB Investment Services Inc. had an accumulated deficit of \$42.4 million. Alberta Finance and Enterprise, *Annual Report*, 2009-2010, pp. 311-350.

¹²ATB Financial, *Annual Report*, March 31, 2011, p.155.

¹³ATB Financial, News Release, August 23, 2007, "ATB Financial to acquire all asset-backed commercial paper of ATB Money Market Fund." ATB Financial, Second Quarter Report, September 30, 2007, p. 21. ATB was not alone in holding this paper. Organizations such as the Caisse de Depot, and the National Bank of Canada held large amounts of the paper.

¹⁴ATB Financial, *Annual Report*, March 31, 2011, p. 128.

¹⁵*Report of the Auditor General of Alberta*, April 2010, pp. 81-88. At December 31, 2010, ATB reported in their quarterly update that completion of its banking system transformation initiative was on schedule to be completed by April 2011 with final costs of \$330 million. ATB Financial, Third Quarter Report, 2010-11, p. 24. At March 31, 2011, ATB had nearly \$296 million in assets classified as "software and software development" to be amortized over a period of up to 15 years. ATB Financial, *Annual Report*, March 31, 2011, p. 136.

¹⁶Alberta Treasury Branches Regulation, sections 11.2 and 11.4.

¹⁷See Atkins, pp. 18-20. Alberta Superintendent of Financial Institutions, *Capital Adequacy Guidelines*, March 2009, section 2 (1). While ATB's retained earnings of \$1.976 billion at March 31, 2011 alone would meet the Tier I capital test, the additional notional capital allows ATB more room to grow its balance sheet.



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