



Infomail

May 4, 2015

Hey Alberta! Been There, Done That, Got the T-Shirt (And Debt)

"Those who would give up essential liberty to purchase a little temporary safety, deserve neither liberty nor safety"

Benjamin Franklin, Inventor

Something out of the ordinary happened last week. Alberta, the oil rich province that has been governed by an orderly series of Conservative majorities since 1971.....elected a NDP majority government.

To say that 44 years of political domination in any democracy in the Western world is a record, would be an understatement. No one is even close, and that's why the election results captured headlines around the world, not just because it was the longest reigning government in Canadian history, but perhaps the most durable dynasty in any post war government, only to be replaced by a left leaning party in the NDP.

The Conservatives went from a dominant 70 seats in the provincial legislative to a mere 10 seats, the NDP from 4 to a 53 seat majority. Ouch!

The reasons are many: arrogance, mismanagement, years of cronyism, no-bid contracts and lavish and self-serving spending, all of those added to a 50% collapse in energy prices: With oil being the lifeblood of the province, royalty revenues in the provincial coffers collapsed as well.

The province's Alberta Heritage Fund, which stood at about \$13 billion surplus in 1987, stood at only \$17.5 billion as of 2014. Despite Albertans making it clear the fund was a valuable hedge against the future, successive Conservative governments hankered with its income as a means to keep promises they otherwise couldn't afford. Since Premier Ralph Klein balanced the budget and paid off the debt, his successors re-opened the spending taps and slid back into debt. If the Fund has stuck to the original vision for

it, it would be a Fund today valued over \$52 billion (Norway's sovereign wealth fund, established in 1990, is worth almost \$900 billion). By pilfering from future generations, recent Conservative governments have allowed themselves to avoid making unpopular decisions and let discipline go by the wayside. That discipline, so needed in an economy whose future is so tied to the ups and downs of a volatile energy market. Rather than put their own political interests behind those of the province, they took the path of least resistance and turned the Heritage Fund into a political ATM cash dispensing machine. The result: the province ran six consecutive deficits into the recent election.

In December, nine members of the hard-right Wildrose Party (including the leader) crossed the floor to join the PC's, which angered the bases of both parties and added to the voters "agita." The latest budget was brought in filled with individual tax hikes, (which further angered the right) and no tax increases for corporations (which further angered the left).

Furthermore, when he took to the road during the campaign, the PC leader made a huge political gaffe when asked for an explanation for the deficit, telling Albertans to "look in the mirror" and blamed the electorate instead of his party's mistakes. It didn't help that the leader of the NDP, Rachel Notley, came across as both capable and likeable.

The Conservatives also misread the electorate. Like most western cultures, Alberta is more diverse, adding tens of thousands of immigrants each and every year, and their loyalty to any political party is not as deep and voting NDP is not seen as an act of treason as it might have been for earlier generations.

The biggest shock? Who was actually elected. Being a coach I know how important a deep bench is. Despite Notley's persona, and with all due respect to anyone's occupation, but how does a retired pulp and paper worker, a social worker, or a student, all who won NDP seats, give them the backgrounds and expertise to run one of Canada's most important (economically) provinces. All in all, the new Premier of Alberta will have to draw her cabinet out of nine teachers, seven nurses, five social workers, four union bosses, two students, two civil servants, an electrician, a bus driver, a yoga instructor, a shipper-receiver and at least one unemployed individual. Zero small business owners, executives, farmers, accountants or serious academics. The average age is about 30. A Calgary riding which overlaps that of Prime Minister Stephen Harper's riding, is now represented by a 28 year old who formerly managed a Red Lobster.

While the media tried to portray Notley as a gentler/kinder NDP leader, who is less revolutionary and not "anti-oil sands" as many would believe. If Alberta were a corporation, its annual revenue of \$44 billion would be \$10 billion more than that of the biggest corporation in the land.....The Royal Bank. Like any corporation, finding the best management talent and paying them accordingly is a challenge. It will be even more so of one for Notley's Alberta. While hard core fans of democracy will argue the notion that just about anyone can be a successful minister of just about anything, it is simply naïve.

This brings us to Ontario in the early 1990's, where from 1990 to 1995 we tried the same experiment. Prior to the 1990 election, the country's largest province was run by Conservatives for four decades. Arrogance, self-serving politics and voter indifference created a change and the province, unbelievably, elected an NDP government led by a Rhode's scholar no less, in Bob Rae, who took over just as the economic impact of the early 1990's recession was coming in to play. Rae and his band of inexperienced ministers tried to spend the province to prosperity and took the provinces debt from approximately \$35 billion (accumulated since the beginning of time) to over \$101 billion.....in just 5 years!

Rae's government gave big pay raises to civil servants, taxed everything in sight, tore up labour union contracts and imposed unpaid days off on public servants.

The net result: The NDP has never come close to winning another election and Ontario has never fully recovered from just 5 years of NDP rule.

Alberta's NDP ran on a party platform which will raise oil and gas royalties, increase (to start) the corporate tax rates from 10% to 12%, stick it to upper income individuals, raise the minimum wage to \$15 from \$10.20 within three years, withdraw support for essential pipelines, expand government funded child care and other welfare programs, prohibit corporate donations to political parties, etc.....etc.....etc. The idea that they are an enlightened, "new" kind of NDP is once again simply naïve.

Employment will fall, unemployment will rise, and budget deficits will become very, very large budget deficits, and Mrs. Notley will do what all left-of-center administrators do in these same situations: They will blame the previous administrations forever for the problems and use those excuses as a reason to raise taxes (on pretty well everyone and everything), sending businesses even outside the oil industry to leave Alberta.

The only hope Albertan's have is for a non-confidence vote to come soon and quickly which topples the government, but that won't happen before a couple of years one would guess.

All we can say is good luck Alberta, you are going to need it.

Stay tuned,

Vito Finucci
Vice President and Director
Investment Advisor

This information is not intended as nor does it constitute tax or legal advice. Readers should consult their own lawyer, accountant or other professional advisor when planning to implement a strategy. This information is not investment advice and should be used only in conjunction with a discussion with your RBC Dominion Securities Inc. Investment Advisor. This will ensure that your own circumstances have been considered properly and that action is taken on the latest available information. The information contained herein has been obtained from sources believed to be reliable at the time obtained but neither RBC Dominion Securities Inc. nor its employees, agents, or information suppliers can guarantee its accuracy or completeness. This report is not and under no circumstances is to be construed as an offer to sell or the solicitation of an offer to buy any securities. This report is furnished on the basis and understanding that neither RBC Dominion Securities Inc. nor its employees, agents, or information suppliers is to be under any responsibility or liability whatsoever in respect thereof. The inventories of RBC Dominion Securities Inc. may from time to time include securities mentioned herein. This commentary is based on information that is believed to be accurate at the time of writing, and is subject to change. All opinions and estimates contained in this report constitute RBC Dominion Securities Inc.'s judgment as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Interest rates, market conditions and other investment factors are subject to change. Past performance may not be repeated. The information provided is intended only to illustrate certain historical returns and is not intended to reflect future values or returns. RBC Dominion Securities Inc. and its affiliates may have an investment banking or other relationship with some or all of the issuers mentioned herein and may trade in any of the securities mentioned herein either for their own account or the accounts of their customers. RBC Dominion Securities Inc. and its affiliates also may issue options on securities mentioned herein and may trade in options issued by others. Accordingly, RBC Dominion Securities Inc. or its affiliates may at any time have a long or short position in any such security or option thereon. RBC Dominion Securities Inc.* and Royal Bank of Canada are separate corporate entities which are affiliated. *Member-Canadian Investor Protection Fund. RBC Dominion Securities Inc. is a member company of RBC Wealth Management, a business segment of Royal Bank of Canada. ®Registered trademarks of Royal Bank of Canada. Used under licence. © 2015 Royal Bank of Canada. All rights reserved.