

## Heritage Savings Trust Fund

# How to manage the wealth?

by Jim McElgunn

Wisdom is in short supply at the best of times. To accumulate wealth is one thing, but to use it wisely quite another.

This problem — how to manage the wealth — must be confronted by all present and future Alberta governments. The means chosen by the present government to direct Alberta's share of the oil and gas boom is the Heritage Savings Trust Fund (HSTF). Creation of the fund was certainly a major accomplishment, but its creation alone is not enough. The question remains: what is the best way to use the enormous revenues from the sale of a fast dwindling resource?

As recently as 1972, such a problem would have seemed hypothetical. Although the oil and gas industry was important to the province, royalty rates were low and the price of both commodities was falling relative to most other commodities. Provincial oil and gas revenues of \$273 million financed one-quarter of Alberta's budget, but were certainly inadequate to pay for anything beyond that.

After 1972, as is well known, things changed dramatically. The Organization of Petroleum Exporting Countries (OPEC) quadrupled its oil prices, and after a lag, Canadian prices for oil and natural gas also began to increase. Windfall oil company profits were generated, but many of these were siphoned off by a significant boost in provincial royalty rates. The impact on Alberta's oil and gas revenues from royalties, land leases, and other sources was startling, as can be seen in the table below.

direction of economic growth and leave the next generation with a strong basis for prosperity.

For these reasons, the Trust Fund was created on May 19, 1976 with an initial \$1.5 billion and a pledge to divert 30 per cent of all non-renewable resource revenues to it. The growth of the HSTF since then has been spectacular, as can be seen below:

May 19, 1976	\$1.50 billion
March 31, 1977	\$2.22 billion
March 31, 1978	\$3.37 billion
March 31, 1979	\$4.71 billion

These figures are impressive, but pale in comparison with future projections. Some estimates state the fund will top \$10 billion by the early 1980s, pass \$30 billion by 1990, and reach \$80 billion by 2000. An amazing amount of wealth for a province which only recently passed the two million people mark!

How to manage such enormous wealth wisely is a major challenge. The current government is still in the midst of deciding what to do with its creation, but it has given some indications of its general intentions.

By the act establishing the fund, the HSTF was divided into three parts. A maximum of 15 per cent is for loans to other Canadian governments and a maximum of 20 per cent for "projects which will provide long term economic or social benefits to the people of Alberta but which will not be their nature yield a return to the Trust Fund." A minimum of 65 per cent is for investments with a reasonable profit



or less than six per cent of the fund, had gone to these projects. Most of the big money is elsewhere.

Much of that big money is invested in the province's own corporations. By March 31, 1979, the Alberta Investment Division had distributed \$1.6 billion, with the great majority to crown corporations in the areas of housing, home mortgages, agricultural development, economic opportunities, and energy. As well, \$226 million was invested in the Syncrude Project (a 10 per cent share). The remaining \$236 million in this division was invested in debentures of its Syncrude partners Gulf Canada and Canada-Cities Service.

This summer, it was announced that for the first time the Alberta Investment Division would begin making loans to the private sector (minimum loan \$1 million). The stated aim is to encourage expansion in Alberta manufacturing, transportation, utilities, agricultural processing, forest products, heavy oil, and coal. The HSTF will soon be a major source of investment capital, but this may not necessarily be to the good. Is it true, as some critics claim, that Alberta is loaning outsiders the money with which to buy up our own economy?

This claim has yet to be put to the test, because for now much of the fund remains relatively unused. In fact, about \$2.5 billion of the \$4.7 billion fund is in portfolio investments (bonds and so on) yielding an average return of only 9.6 per cent. Until the government decides what to do with the fund, it would prefer to keep its money in low-risk, moderately profitable securities rather than chance making a major investment blunder.

There are good reasons for the government's hesitancy; one of the strongest is that there are no precedents to follow, no mistakes to learn from. Also, other than in energy-related fields, there seems to be a paucity of good investment opportunities. If the government is to diversify the economy, however, it must sooner or later take the risks necessary in potentially very profitable ventures.

Even with diversification in mind, the government's main activities must center on existing strengths — oil and gas, agriculture, and tourism. No matter how much one might dream otherwise, Alberta will never have a car industry or develop into a heavy manufacturing center (then again, who wants to?). Moves to promote more manufacturing or to make Alberta into a major medical research center are important, but Alberta's economy will remain strongly resource-based for a long time. This is a limitation with which the government must cope.

This problem of how to reconcile dreams of a Western Shangri-la with hard social, economic, and political realities appears time after time. For instance, complaints are common that provincial spending on education,

needlessly throttled at a time of huge budget surpluses. Opponents counter that the government must not commit itself to programs it will be unable to maintain in twenty years. Is this a legitimate objection, or are new programs not affordable because loans to business have higher priority?

Another debate centers on the question of how much of the investment should go to the public sector. Given the political climate in Alberta, one would expect that this figure would be rather low. Yet, few Albertans object to the idea of the government investing large sums of money in its own corporations, and this is exactly what they are doing. Indeed, the greater potential for political scandal involved in the granting of loans to private companies suggests the private sector investments may generate more controversy than those in the public sector.

Another point of contention is whether or not the overall management of the fund is too cautious and unimaginative. Is putting the fund into Crown corporations, bonds, and various private corporations enough, or should the government try something more dramatic? Why not construct a tar sands extraction plant financed entirely by the HSTF? Better yet, why not buy out Canadian Pacific or even Imperial Oil?

Some such proposals are surely being considered, especially if one assumes that Peter Lougheed is probably in his last term in office and would likely leap at the chance to launch a breathtaking takeover bid. Would this be a smart move, or is a more balanced investment approach more sensible? In any case, a takeover bid for Canada's largest oil company seems quite unlikely, but this does not rule out a major corporate coup in the next few years.

Aside from questions of philosophy, probably the most important reason why Premier Lougheed would be loath to buy out a subsidiary of a foreign multinational corporation is that it would make foreign investors very nervous. Although Alberta already has by far the highest percentage of foreign ownership in the country and what will soon be the biggest pool of investment capital in Canada, the Alberta government is still seeking more foreign investment.

The government's blindness to the dangers of excessive foreign investment is probably the most worrisome aspect to its handling of the Trust Fund. If tens of billions of dollars is not enough to free us of dependency on our southern neighbour, we may as well hoist the Stars and Stripes over the legislature.

Many questions about the Trust Fund remain, but ultimately the answers will depend on the government's vision of this province. It has the opportunity to shape Alberta to its vision — an opportunity unparalleled in the Western world.

What they do with that opportunity remains to be seen.

TABLE A  
(figures in millions of dollars)

	Oil and Gas Revenues	Oil and Gas Revenues Allocated to Budget	% of Total Revenues From Oil and Gas
1972	273	273	25.5
1973	332	332	26.8
1974	649	649	37.6
1975	1535	1535	52.7
1976	1762	1762	53.3
1977	2060	1444	44.8
1978	3063	2115	50.7

This sudden wealth seemed cause for rejoicing, but more sober thinkers realized it could also be a recipe for disaster. Time and again, the world has seen regions and nations fail to cope with the effects of a sudden bonanza of resource wealth. Typically, rampant inflation, social upheaval, and extreme dependency on one industry accompany the boom. As the industry declines, prosperity departs, leaving behind a debt-ridden stagnant society.

By the late 1970's, Alberta seemed headed for this fate. No major oilfields had been found since 1966 and provincial production of crude oil had already begun to decline. Predictions were that conventional oil production would fall by half by the late 1980s. The outlook for natural gas reserves was only slightly brighter. Gas production might decline more slowly than oil production, but the trend in both cases would be the same.

Although this view may have been overly pessimistic, the problem of how to manage a boom while preparing for what would follow challenged the Lougheed cabinet, many of whose members were haunted by memories of the 1930s.

At the same time, the sudden wealth of the provincial government presented it with an opportunity unique in Canadian history to shape the

which will strengthen and diversify the Alberta economy.

Specifics for the above outline have slowly emerged. By March 31, 1979, loans totalling \$270 million had been made by the Canada Investments Division to the governments of Newfoundland, New Brunswick, Nova Scotia and Manitoba, and to the Nova Scotia Power Corporation. Since then, Quebec has been added to the list. As economic investments, these loans are moderately profitable; as political gestures, they are first-rate.

Since the Capital Projects Division is the only one subject to direct legislative scrutiny and because its activities are generally popular, it has tended to grab the spotlight. The joy of having money to spend on recreation, health, and public works is obvious: the list of projects is long. Capital City Park, Kananaskis Country development, Fish Creek Park, the Heritage Learning Resources Centre, agricultural research, airport improvements, the Southern Alberta Children's Hospital, the Alberta Health Sciences Centre, cancer research programs, reforestation projects, irrigation development, land reclamation, oil sands research — all of these are being financed in whole or part by the HSTF. Yet, by March 1979, only \$255 million,