

a billion-dollar discussion

"Trustees for a disappearing resource": Hyndman

nda Chodan, Alison Thomson,
eter Michalyshyn.

Provincial treasurer Lou Hyndman gave the government view of policy decisions on the Heritage Fund at the final session of the conference.

He referred to the conference as a useful bridge between the academic community and government.

Hyndman said Albertans and

Canadians should be proud of having set aside the profits from non-renewable resources so future Albertans can benefit from the services which we now enjoy, without the adverse effects of punitive taxation.

Hyndman said he does not see the high visibility of the fund as a problem,

but rather a symptom of the fact that Central Canada's status quo has ended. Decision-making, both political and economic, has moved to the west, he said, and furthermore, the government of Alberta is assisting that process and intends to continue to do so.

The concept that the fund is divisive and a threat to Confederation is nonsense, said Hyndman. It would be playing into the hands of the Quebec separatists to allow the federal government to confiscate the fund, because Quebec could then point to this as an example of province's rights being eroded, said Hyndman.

Hyndman said the common notion that there's something wrong with saving the future is incorrect. He said when the economic situation is considered, the need for available capital is even more apparent.

The fund must not disrupt the economy of Alberta or of the private sector though, he said. "The fund could have a deleterious effect very easily. We intend that this shall not happen."

Hyndman discussed the suggestion which had arisen earlier in the conference that there should be a delegation of investment decision-making to the private sector, and said it cannot practically occur. He pointed out the control of the fund must remain in the hands of those people who receive a mandate every election. He said he felt the management of the fund so far has received the support of Albertans. The last election, in which it was a major issue, he said, proved this.

However, Hyndman said every investment could not be debated in the legislature, because if it were, some of the investments would never have happened. He said if people want debate in the legislature to any greater extent, they must be willing to accept a rate of return as much as 4 per cent below the commercial rate.

Hyndman concluded his address by discussing concerns for the future and noting that the fund could be either "an albatross or a door opening new vistas."

"We are trustees for Albertans of a disappearing resource," he said.

Invest fund in business, say delegates

The Alberta Heritage Savings Trust Fund should consider investments in equity shares in businesses. Both A. Kniewasser of the Investment Dealers Association of Canada and Dr. Mirus of the U of A faculty of business administration and commerce agreed on this point in presentations they made to the conference in a session on portfolio selection Thursday.

At present, investment in equity is disallowed by section 9 of the act governing the trust fund. Currently, the portion of the fund which is not involved in capital projects or Albertan or Canadian investments is invested in corporate and government bonds, and treasury bills. This amounts to 51.9% of the fund.

Dr. Mirus said including Canadian equity securities among section 9 investments would extend diversification, and lessen the inflation risk.

He noted that the nature of the fund would allow such securities to be purchased and held over long periods of time, which would enable the fund to ride out short term fluctuations in the value of the stock.

Kniewasser said there is consensus in Canada that we should be shifting the balance in economic strategy from public sector consumption to private sector investment. He said large par-

ticipants in the capital market, such as the Heritage Fund, should facilitate this shift.

Kniewasser said the lack of new equity is a major cause of low levels of productive investment, and economic underperformance, as reflected by unemployment and inflation.

However, Kniewasser does not think the fund should diversify internationally. He said substantial international diversification would weaken Canadian financial markets, and damage our balance-of-payments position.

Dr. Mirus disagreed with this assessment of international diversification. He said it would have the effect of diversifying the inflation risk. He also said while foreign investment would entail assuming some exchange risk as well as political risk, this could be minimized by investment in several foreign currencies.

Mirus also pointed out that foreign diversification could serve as a hedge against price uncertainty derived from the consumption of imports in Alberta.

Mirus suggested investment in World Bank Bonds, which would also serve as "a visible commitment of the Province of Alberta to the development of those less fortunate in natural endowments."



an unidentified guest speaker face-off

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of resources and capital funds for export. Creation of the trust fund was seen as preferable to increased government expenditures. The authors cite a stabilizing effect on both the rate of growth of the province's population and the rate of consumption in both the public and private sectors in the province.

The paper further noted that a significant amount of the province's revenues gained from resource sales are being spent on current consumption. Improved opportunities for investment of the fund would appear to justify its growth, although this is dependent upon the opportunities that become available for the use of the fund.

Scarfe and Powrie insist that the fund be used to finance new investment projects in the hope of maintaining revenue surpluses. Expanding the fund would counteract the boom-bust syndrome common to resource extraction.

Thus, the authors contend, the Trust Fund is a valuable tool whose growth would be advantageous to regulation of the growth of the provincial economy.

Discussion of the Collins and Scarfe-Powrie papers opened with comments by Dr. O.S. Goldsmith, of the Alaskan Institute of Social and Economic Research, and Dr J.F. Helliwell, professor of economics at the University of British Columbia.

Goldsmith cited several differences between the structures of the Alaskan and Albertan trusts, most of which are based in the particular forms of the political institutions by which each is governed.

Helliwell agreed, and added that Alberta has little choice but to continue to build up the fund revenues, with the long-term objective of replacing contributions to government funds obtained through current resource sales.

Government checks needed

The "sweeping discretionary powers" the Alberta cabinet has over the Heritage Fund and the absence of strong legislative checks were the subject of Friday afternoon's discussion at the conference.

Political science professors Larry Pratt and Allan Tupper presented a paper on the political implications of the Fund and the government's accountability in its use.

The Lougheed government's image of itself as "state entrepreneur" allows cabinet members to be pro-business, they said. However, cabinet members are ready to intervene in the economy to achieve their province-building goals.

These interventionist policies, said Pratt and Tupper, have generated intense debate within the Progressive Conservative party. Many right-wing members favor stricter legislative accountability over the fund's management to prevent what they see as excessive intervention, they said.

The authors spoke in favor of government intervention, but said stricter accountability is both possible and desirable. However, the prevailing view of government as a business only

accountable to its stockholders, the electorate, every four years, is an obstacle to accountability, they said.

The Heritage Fund's implications for provincial government were the subject of a paper by Garth Stevenson. Stevenson described the way Canadian provinces have used their control over public lands and resources to further a wide range of economic interests.

This province-building, he said, is the primary concern of provincial governments. Thus, strengthening and diversifying the economy is the most important aim of the fund, said Stevenson.

At present, he said, no coherent province-building strategy exists, mainly because of economic and political constraints. The desire to keep Alberta one of Canada's most white-collar provinces is one of these constraints, he said. Lougheed's assertion "we don't want smokestacks here", said Stevenson, partly reflects the fear that an influx of blue-collar workers would polarize provincial politics. Rather, the government prefers the politically conservative white-collar employees found in Syncrude, head offices, and the provincial bureaucracy, said Stevenson.