

FISCAL POLICY TRENDS

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WHO WILL PAY THE INTEREST ON ALBERTA'S PUBLIC DEBT?

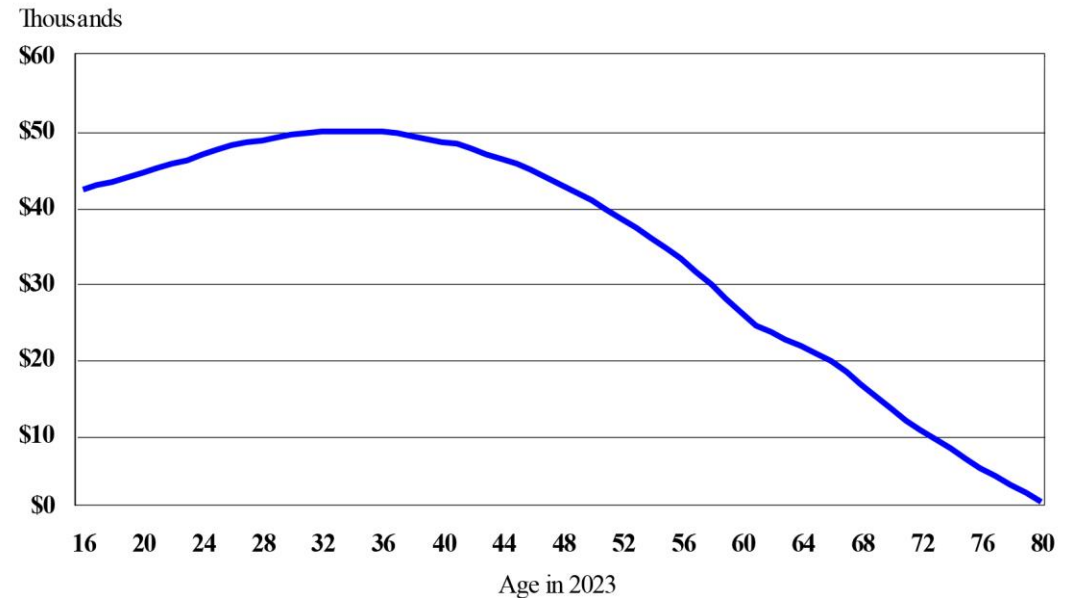
By Philip Bazel, Daria Crisan and Bev Dahlby

William Lyon Mackenzie King, Canada's 10th Prime Minister, used to say "Today's promises are tomorrow's taxes". A more up-to-date version would be "Today's deficits are tomorrow's taxes."

Alberta's governments began running deficits in 2008-09 and the NDP government only plans to balance the provincial budget in five years' time. By then, Alberta's public debt will have risen to about \$90 billion with annual interest payments of \$3.8 billion in 2023-24.¹ Who will pay the taxes to pay the interest on Alberta's public debt? — Future taxpayers.

In this briefing note, we calculate the present value in 2023 of the increase in personal income taxes that will be

Figure 1: The Present Value of Individuals' Lifetime Taxes to Pay the Interest on Alberta's Public Debt



necessary to service Alberta's public debt, assuming the budget is balanced in 2023 by then and the total debt is stabilized. We calculate the discounted value of the personal income taxes that typical individuals aged 16 to 80 can expect to pay over their lifetimes to pay the \$3.8 billion annual interest payments on Alberta's debt. We do not consider the additional taxation that would be required to actually reduce the outstanding debt.

¹ See B. Dahlby "The Path to Balance or the Road to Ruin?" for projected operating, capital and interest expenditures with the government's fiscal plan. <http://www.policyschool.ca/wp-content/uploads/2018/03/Fiscal-Trends-Path-to-Balance-Dahlby.pdf>

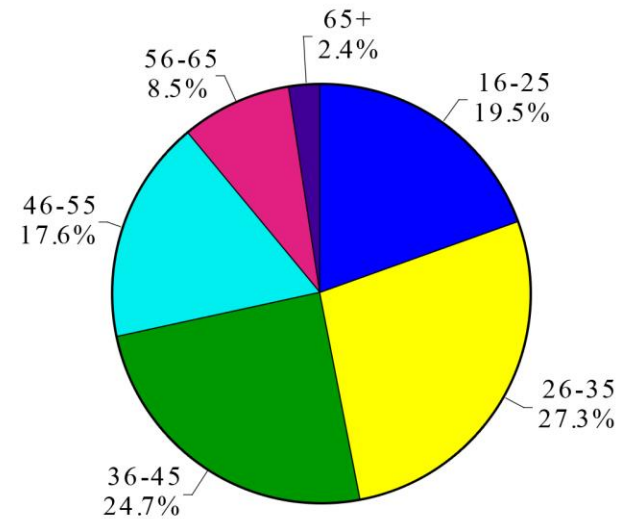
Figure 1 shows that a 16 year old in 2023 can expect to pay the equivalent of \$42,252 over her lifetime in additional personal income taxes to pay the interest on the public debt.²

The highest burden will be borne by an individual who is 36 years old in 2023 at \$49,864. Older age groups, will shoulder a lower, but still significant, burden with a typical 65 year old having to pay \$20,605.

There are two key message from these calculations. First, deficit-financed public spending imposes substantial burdens on future taxpayers, even when all we do is consider the cost of paying the interest on the debt. Second, the burden of financing the debt falls disproportionately on younger age groups.

This is shown in Figure 2. The 16 to 25 year olds will bear 19.5 per cent of the total burden borne by all individuals who are taxpayers in 2023.

Figure 2: Shares of the Lifetime Tax Burden to Pay the Interest on Alberta's Public Debt by Age Group



Almost half of the burden of higher taxes will be borne by the 16 to 35 years age group. Those over the age of 65 will pay less than 3 per cent of the total tax burden.

This means that, while the growth of the public debt should be a concern for all Albertans, it should be a special concern for Alberta's youth.

² Data for the calculations were obtained from Statistics Canada's The Social Policy Simulation Database and Model (SPSD/M) <https://www.statcan.gc.ca/eng/microsimulation/spsdm/spsdm>