



Revolution and Reversal

Ten Years of Premier Ralph Klein

December 1992 to December 2002

Prepared by:

John Carpay
Alberta Director
Canadian Taxpayers Federation

#410, 9707 – 110 Street
Edmonton, Alberta
T5K 2L9

Phone: (780) 448-0159
Fax: (780) 482-1744
Web: www.taxpayer.com
E-mail: taxpayer@shawbiz.ca

December 2002

About the Canadian Taxpayers Federation

The Canadian Taxpayers Federation (CTF) is a federally incorporated, non-profit, non-partisan, education and advocacy organization. The CTF was founded in Saskatchewan in 1990 when the Association of Saskatchewan Taxpayers and the Resolution One Association of Alberta joined forces to create a national taxpayers organization. In twelve years it has grown to become a organization with over 60,000 supporters nation-wide.

The CTF's three-fold mission statement is:

1. To act as a watchdog on government spending and to inform taxpayers of governments' impact on their economic well-being;
2. To promote responsible fiscal and democratic reforms, and to advocate the common interest of taxpayers; and
3. To mobilize taxpayers to exercise their democratic responsibilities.

The CTF maintains a federal office in Ottawa, and offices in the five provincial capitals of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario. In addition, the CTF has a Centre for Aboriginal Policy Change dedicated to monitor, research and provide alternatives to current aboriginal policy and court decisions. Provincial offices and the Centre conduct research and advocacy activities specific to their provinces or issues in addition to acting as regional organizers of Canada-wide initiatives.

CTF offices field hundreds of media interviews each month, hold press conferences and issue regular news releases, commentaries and publications to advocate the common interest of taxpayers. The CTF's official publication, *The Taxpayer* magazine, is published six times a year. CTF offices also send out weekly *Let's Talk Taxes* commentaries to more than 800 media outlets and personalities nationally.

CTF representatives speak at functions, make presentations to government, meet with politicians, and organize petition drives, events and campaigns to mobilize citizens to effect public policy change.

All CTF staff and board directors are prohibited from holding a membership in any political party. The CTF is independent of any institutional affiliations. The CTF is not a registered charity, and contributions are not tax deductible.

The head office of the Canadian Taxpayers Federation is located in Regina at:

Suite 105, 438 Victoria Avenue East
Regina, Saskatchewan
S4N 0N7

Telephone: 306-352-7199
Facsimile: 306-352-7203
E-mail: canadian@taxpayer.com
Web Site: www.taxpayer.com

Revolution and Reversal: Executive Summary

From 1992 to 1996, Alberta really did experience a fiscal revolution under Premier Ralph Klein. The size of government, as measured by spending on government programs, per person, was reduced by 30% in real terms (adjusting for inflation and population growth). No other government in Canada, federally or provincially, has ever reduced the size of government by 30% in real terms: not Mike Harris in Ontario, not Gordon Campbell in B.C., and certainly not Paul Martin in Ottawa.

Reducing the size of government is what enabled Ralph Klein to repay \$15 billion of Alberta's debt during his ten years in office, reducing it from \$20.3 billion to \$5.3 billion. This has been of immense benefit to taxpayers, who now lose only 2.9% of their provincial tax dollars to debt servicing costs, in contrast to 11.5% back in 1994.

In real terms, taxes in 2002 are down slightly from 1992. The average Albertan today pays \$4,331 per year in provincial taxes, compared to \$4,480 in 1992 (using 2002 constant dollars). As a percentage of Alberta's Gross Domestic Product (GDP), taxes are down from 13% of GDP in 1992 to 9% of GDP in 2002.

But the revolution of 1992 to 1996 has been largely (though not entirely) reversed.

Since 1996, government spending has risen 53%, compared to only 12% population growth and 14% inflation during the same time period. This massive spending increase led to tax increases in the 2002 budget, with a threat of further tax increases in 2003.

On his tenth anniversary "taxpayer report card" Premier Klein receives the following grades:

B	Level of taxation
A	Income tax reform
D	Level of government spending
A	Balanced budget legislation
D	Size of cabinet
A	Debt repayment and debt repayment legislation
B	Ending corporate welfare
D	Public sector salary increases
A	Natural resource development
D	Taxpayer protection legislation
D	Spending of oil and gas revenues
C	Management of the Heritage Fund
C	Health care reform
F	Democratic accountability
D	Accountability of individual MLAs to their constituents
B	MLA salaries
D	Transparency of MLA compensation
C	MLA Pension Plan/Severance Pay
D	Process of determining MLA compensation

Revolution and Reversal

Ten Years of Premier Ralph Klein

Category	1992	1996	2002
Alberta's population	2,634,400	2,780,600	3,113,600
Alberta's Gross Domestic Product (GDP) (in \$ billions)	74.303	98.738	150.200 (projected)
Alberta's GDP, per person	\$28,205	\$35,510	\$48,240
Alberta's GDP, per person, in constant 2002 dollars	\$34,565	\$40,444	\$48,240
Total spending on all government programs (excluding debt servicing costs), in \$ millions	16,176	12,768	19,582
Spending on government programs as a percentage of Alberta's GDP	21.8%	12.9%	13.0%
Spending on government programs (excluding debt servicing costs), per person	\$6,140	\$4,592	\$6,289
Spending on government programs (excluding debt servicing), per person, in 2002 constant dollars	\$7,525	\$5,230	\$6,289
Provincial government revenues, excluding oil and gas revenues and federal government transfers, in \$ millions	9,631	11,334	13,484
Provincial government revenues (excluding oil and gas revenues and federal government transfers) per person	\$3,656	\$4,076	\$4,331
Provincial government revenues (excluding oil and gas revenues and federal government transfers) per person, in 2002 constant dollars	\$4,480	\$4,642	\$4,331
Provincial government revenues, excluding oil and gas revenues and federal government transfers, as a percentage of Alberta's GDP	12.96%	11.48%	8.98%
Spending on health care, per person, in 2002 constant dollars	\$2,021	\$1,636	\$2,224
Spending on education, per person, in 2002 constant dollars	\$1,824	\$1,537	\$1,721
Provincial fuel tax	9 cents/litre	9 cents/litre	9 cents/litre
General corporate tax rate	15.5%	15.5%	13.0%
Small business corporate tax rate	6.0%	6.0%	4.5%
Health care premium tax	\$324/year/individ.	\$408/year/individ.	\$528/year/individ.

	\$648/year/family	\$816/year/family	\$1,056/yr/family
Category	1992	1996	2002
Tobacco tax	\$14/carton	\$14/carton	\$32/carton
Personal income tax	46.5% of federal taxes	45.5% of federal taxes	10% single rate on income in excess of \$13,339
Total personal income tax collected, in \$ millions	2,794	3,445	4,647
Personal income tax paid, per Albertan	\$1,061	\$1,239	\$1,492
Personal income tax paid, per Albertan, in 2002 constant dollars	\$1,300	\$1,411	\$1,492
Personal income tax paid by Albertans, as a percentage of Alberta's GDP	3.76%	3.49%	3.09%
MLA annual salary	\$38,335	\$36,420	\$42,204
MLA tax free allowance	\$19,168	\$18,210	\$21,102
MLA "RSP allowance"	0	0	\$6,750
Total MLA compensation in real terms, factoring in the effect of the tax-free allowance to arrive at a "taxable equivalent" of what a non-MLA would need to earn to have the same after-tax take-home pay as an MLA	\$64,935	\$61,690	\$78,204
Number of Cabinet Ministers	26 (Don Getty's last cabinet) 17 (Ralph Klein's first cabinet)	19	24
Number of provincial government employees	23,916	21,193	22,577 (projection extrapolated from 8% increase from 1997 to 2000)
Number of provincial government employees as a percentage of Alberta's population	0.91%	0.76%	0.73%
Alberta's debt, in \$ billions	20,305	17,733	5,300
Annual debt servicing costs, in \$ millions	1,419	1,462	580
Debt servicing costs as a percentage of total provincial government spending	8.06%	10.27%	2.88%

Taxpayer Report Card on Premier Klein

Subject	Grade	Comments
Level of taxation	B	Alberta's provincial taxes are slightly lower in 2002 than in 1992, and are still the lowest in Canada. The average Albertan today pays \$4,331 per year in provincial taxes (excluding revenues from oil and gas). In 1992 the average Albertan paid \$3,656 per year in taxes, which is the equivalent of \$4,480 today. Unfortunately, Alberta's 2002 taxes are higher than in 2001, contrary to an express pre-election promise that "the only way taxes are going is down."
Income tax reform	A	Alberta has the fairest and most family-friendly income tax system in Canada. Alberta's basic personal exemption of \$13,339 is higher than in any other province, and almost double the federal income tax exemption of \$7,634. Alberta's combined personal and spousal exemptions total \$26,678 – by far the highest in Canada. Unlike the federal system, which forces parents to pay more income tax when one of them stays home to care for children, Alberta's provincial income tax system treats all families equally, respecting the child care choices which parents make. Alberta's single 10% rate has helped to stimulate job creation and economic growth.
Level of government spending	D	Ralph Klein's government has failed to implement spending control legislation. As a result, Alberta's spending on government programs is 53% higher in 2002-03 than it was six years ago, in contrast to only 12% population growth and 14% inflation during the same period. This massive spending increase has led to tax increases (March 2002) and threatens further tax increases in March 2003. In the 2001-02 fiscal year, Alberta spent more on government programs, per person, than any other province in Canada. The Fraser Institute ranked Alberta 10 th (second last) among Canada's federal and provincial governments on its "spending index." Only Newfoundland ranked worse. The 1992-96 reduction in the size of

		government has been largely reversed by a 53% program spending increase from 1996 to 2002.
Balanced budget legislation	A	When Ralph Klein became Premier in 1992, the Alberta government's spending in that fiscal year exceeded revenues by \$3.324 billion – the last of the Lougheed/Getty deficits. Thanks to balanced budget legislation, this was turned into a surplus of \$938 million within two years. This \$938 million surplus in 1994-95 was followed by another seven consecutive surpluses, ranging in size from \$1.1 billion to \$6.6 billion.
Size of cabinet	D	A classic example of “revolution and reversal.” Upon becoming Premier, Ralph Klein reduced Alberta's cabinet from 26 to 17. Since 1993 the size of cabinet has gradually increased, and after his 2001 re-election Premier Ralph Klein enlarged it further to 24 members, making it the largest in western Canada at the time, and the second-largest in Canada. With few exceptions, each cabinet minister acts as a spending advocate for her/his department. This is why a large cabinet is both a symptom and a cause of big government.
Debt repayment and debt repayment legislation	A	Alberta's debt has gone from \$20.3 billion in 1992 down to \$5.3 billion in 2002. Debt servicing costs eat up only 3% of provincial government spending, down from a high of 11.5% in 1994. The remarkable accomplishment of reducing Alberta's debt by \$15 billion has come about thanks to legislation requiring debt repayment. Legislation is the key to Alberta's fiscal success, enabling politicians to resist the demands of spending advocates.
Ending corporate welfare	B	Happily for taxpayers, the Alberta government has largely removed itself from the business of being in business. However, the Alberta Opportunities Company continues to hand out tens of millions of dollars in loans to businesses each year.
Public sector salary increases	D	After years of restraint and modest increases, Alberta's doctors, nurses, provincial government employees, MLAs and teachers have all received double-digit wage increases in the past two years, far in excess of workers in the private sector. The option of helping <u>all</u> Albertans (both public sector and private

		sector) by reducing taxes has been rejected. Instead, the health care premium tax was recently raised to \$1,056 per year per Alberta family to help pay for the government's 53% spending increase since 1996. Public sector salary increases are largely responsible for this 53% spending increase.
Natural resource development	A	Alberta's wealth is no accident, but the result of pro-business policies which have allowed Alberta's oil, gas and other natural resources to be developed. In Alberta the money, hard work, talent and creative energy of investors, managers and workers have been harnessed to generate jobs and prosperity for millions of people. In contrast, anti-business policies in neighbouring B.C. and Saskatchewan, combined with the threat of nationalization and other wealth confiscation policies, have resulted in their resources being left undeveloped. Like its predecessors, the Klein government can rightfully take credit for facilitating wealth creation in the only place where this can occur: the private sector.
Taxpayer protection legislation	D	Currently, the <i>Alberta Taxpayer Protection Act</i> only requires that a referendum be held on the introduction of a general sales tax. All other tax increases do <u>not</u> require voter approval before going into effect, even if the tax increase violates an express pre-election promise. If Alberta had taxpayer protection legislation like Manitoba, the state of Washington, Switzerland and other jurisdictions, the onus would be on politicians to explain and justify why a proposed tax increase is necessary. A recent poll (November 2002, JMCK Polling) revealed that 83% of Albertans want effective taxpayer protection legislation.
Spending of oil and gas revenues	D	Throughout Premier Klein's tenure, the Alberta government has continued to spend 100% of oil and gas revenues, setting 0% aside for the benefit of future generations. The announcement of the creation of a separate fiscal stability fund does not address this underlying problem; this new resource revenue fund is based on the idea that the government should and will continue to spend 100% of oil and gas revenues.
Management of the Heritage Fund	C	To the government's credit, it has thus far resisted pressure from some quarters to spend

		<p>the Heritage Fund. Unfortunately, the government has allowed the Heritage Fund to lose roughly one third of its real value through inflation. From 1987 through to 2001, the Heritage Fund's assets have retained a value of approximately \$12 billion, but this represents a loss of one third of the Fund's value in real terms. The government should "inflation-proof" the Heritage Fund by re-investing enough of its earnings each year to maintain its real value, as Alaska and Norway have done with their resource revenue funds.</p>
Health care reform	C	<p>The Klein government deserves credit for creating the Premier's Advisory Council on Health to examine ways of improving the health care system itself, rather than simply throwing more money at it. The Council's work resulted in what is now commonly called "the Mazankowski report."</p> <p>Unfortunately, the government has been slow to implement the report's recommendations. Worse, the government has used this report to try to justify increasing the health care premium tax to \$1,056 per year for every family in Alberta, contrary to what the report (at page 54) actually recommends.</p>
Democratic accountability	F	<p>Ralph Klein's government has failed to introduce legislation giving Albertans the right to initiate and vote in referendums on important issues. Premier Klein stated on June 19, 2002, that "what I favour becomes policy," but he has consistently failed to support citizens' initiative bills introduced by private members in 1994, 1996, 1998 and 2001. An Evironics poll (August 2001) revealed that 79% of Albertans want citizens' initiative legislation. Ralph Klein's government has also failed to introduce legislation giving Albertans the right, under certain circumstances, to fire their MLA. No contractor or employee should be completely immune, over the entire course of a five-year period, from the possibility of getting fired. But Alberta MLAs are.</p>
Accountability of individual MLAs to their constituents	D	<p>Almost all political decisions in Alberta are made behind the closed doors of the Government Caucus, the Standing Policy Committees (on which only Government MLAs serve), the cabinet meeting rooms,</p>

		and the Premier's Office. The Alberta Legislature is, for the most part, a rubber stamp which confers legal legitimacy on what has already been decided behind closed doors. Although there is ongoing consultation with individual Albertans and with various groups regarding public policy, there is little if any direct accountability between MLAs and their constituents between elections.
MLA salaries	B	Alberta MLAs in 2002 earn the equivalent of \$78,204 per year, based on a salary of \$42,204, plus a tax-free allowance of \$21,102 (worth \$29,284 in real terms), plus an "RSP allowance" of \$6,750. In other words, MLAs earn the same, after taxes, as other Albertans earning \$78,204 per year. Adjusted for inflation, and excluding the significant factors of the former MLA Pension Plan and the current large severance pay packages, MLAs in 2002 earn 20% more in real terms than they did in 1992. Although \$78,204 is not unreasonable or unfair, it should be acknowledged that the famous 5% MLA pay-cut has been more than reversed.
Transparency of MLA compensation	D	Although information about MLA compensation is publicly available, it is unclear how much MLAs earn. The \$6,750 "RSP allowance" is not even mentioned on the Alberta government's web site! Alberta should follow the example of B.C. and pay MLAs a straight-forward salary, without a "tax-free allowance" or an "RSP allowance." MLAs are in fact earning the equivalent of \$78,204 per year; they should be paid a simple salary of \$78,204 per year.
MLA Pension Plan/Severance pay	C	With great fanfare and publicity, Ralph Klein abolished the lucrative MLA Pension Plan just prior to the 1993 election in which he won his first mandate. Eight years later (August 7, 2001), Liberal and Conservative MLAs on the Members' Services Committee secretly voted themselves severance pay packages equivalent to 25% of the money earned over the duration of their time in office since 1989, calculated according to the three highest-earning years as an MLA, committee chair, or cabinet minister. Instead of a pension, Premier Klein will collect over \$530,000 in severance pay if he leaves office

		in 2005. Speaker Ken Kowalski, Finance Minister Pat Nelson, and other cabinet ministers first elected in 1989 will also get close to \$500,000 each if they retire in 2005 (and more if they retire later). In the long run, these large severance pay packages probably cost taxpayers less money than the former MLA pension plan.
Process of determining MLA compensation	D	MLA compensation is determined without public consultation or public input, behind closed doors, by the all-party Members' Services Committee. Although these meetings are <i>theoretically</i> open to the public, notice of their time and place is limited to the posting of a sheet of paper on a bulletin board somewhere on the inside of the Legislature, where members of the public are (for obvious reasons) not permitted to wander about freely.