

# Canadian Taxpayers Federation's Alberta 2020 Pre-Budget Submission

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## About the Canadian Taxpayers Federation



### **Canadian Taxpayers Federation**

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The Canadian Taxpayers Federation is a federally incorporated, not-for-profit citizen's group dedicated to lower taxes, less waste and accountable government. 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 organization. Today, the CTF has over 235,000 supporters nation-wide.

The CTF maintains a federal office in Ottawa and regional offices in British Columbia, Alberta, Prairie (SK and MB), Ontario, Quebec and Atlantic. Regional offices conduct research and advocacy activities specific to their provinces 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, online postings and publications to advocate on behalf of CTF supporters. CTF representatives speak at functions, make presentations to government, meet with politicians, and organize petition drives, events and campaigns to mobilize citizens to affect public policy change. Each week CTF offices send out Let's Talk Taxes commentaries to more than 800 media outlets and personalities across Canada.

Any Canadian taxpayer committed to the CTF's mission is welcome to join at no cost and receive issue and Action Updates. Financial supporters can additionally receive the CTF's flagship publication *The Taxpayer* magazine published three times a year.

The CTF is independent of any institutional or partisan affiliations. All CTF staff, board and representatives are prohibited from holding a membership in any political party. In 2017-18 the CTF raised \$5.1 million on the strength of 31,205 donations. Donations to the CTF are not deductible as a charitable contribution.

# Introduction

Alberta has a spending problem.

The Blue Ribbon Panel on Alberta's finances, a team of experts led by former Saskatchewan New Democrat Finance Minister Janice MacKinnon, released a report in 2019 on the province's budget woes. There's a clear takeaway for taxpayers: the Alberta government is overcharging us by billions of dollars every year.

"The panel found that Alberta's spending per capita is the highest in Canada and has consistently been higher than the average of the 10 provinces over the last 25 years," reads the report.<sup>1</sup>

"Alberta's annual expenditures would be \$10.4 billion less if its per capita spending simply matched the average of spending in Canada's three largest provinces: British Columbia, Ontario and Quebec – and we would not have a deficit."

The overcharging isn't justifiable given the quality of services Alberta taxpayers receive.

"In some key areas, in spite of the higher levels of funding, the results achieved are no better and, in some cases, worse than in other provinces," stated the panel.

Take health care. Alberta is the youngest province<sup>2</sup> and we're spending \$1,000 per person more than people living in Ontario, but Alberta's wait times, from general practitioner referral to treatment, is 12 weeks longer.<sup>3</sup>

The Canadian Taxpayers Federation's Alberta supporters are tired of being overcharged every year for provincial government services.

The rest of this pre-budget submission will be broken down into the following sections:

1. Balancing the budget and paying down the debt
2. Reducing Alberta's ballooning labour costs
3. Economic development without corporate welfare
4. Scraping the bracket creep income tax hike

<sup>1</sup> Blue Ribbon Panel on Alberta's Finances, "Report and Recommendations," 2019, <https://open.alberta.ca/dataset/081ba74d-95c8-43ab-9097-cef17a9fb59c/resource/257f040a-2645-49e7-b40b-462e4b5c059c/download/blue-ribbon-panel-report.pdf>

<sup>2</sup> Globe and Mail, "Census 2016: The growing age gap, gender ratios and other key takeaways," 2017, <https://www.theglobeandmail.com/news/national/census-2016-statscan/article34882462/>

<sup>3</sup> Bacchus Barua and Mackenzie Moir, "Waiting Your Turn Wait Times for Health Care in Canada," Fraser Institute 2019, <https://www.fraserinstitute.org/sites/default/files/waiting-your-turn-2019-rev17dec.pdf>



## Summary of Recommendations

### Balancing the budget and paying down the debt

**Recommendation:** Reduce total spending and spending in every department until budget is balanced

**Recommendation:** Implement a balanced budget and debt retirement act with the following taxpayer protections:

- Total spending cuts until the budget is balanced
- Deficits outlawed after 2021
- Financial penalties for MLAs if the budget is not balanced (after 2021)
- Limit spending growth to population plus inflation (after budget is balanced)
- Debt repayment schedule

### Reducing Alberta's ballooning labour costs

**Recommendation:** Bring government labour costs in line with peer provinces such as B.C., Ontario and Quebec to save billions of dollars every year.

**Recommendation:** Outlaw defined-benefit pension plans for new government employees. Options for reform can include putting new employees in RRSP-style defined contributions plans.

**Recommendation:** Conduct comprehensive review of government benefits and align them with business norms.

### Economic development without corporate welfare

**Recommendation:** Eliminate all forms of corporate welfare, specifically dissolving the Alberta Enterprise Corporation and scrapping the subsidies for petrochemical firms and the film industry.

**Recommendation:** Outlaw corporate welfare defined as direct subsidies, grants, loans, loan-guarantees, niche tax credits and financial support to businesses delivered through government programs.

### Scraping the bracket creep income tax hike

**Recommendation:** Eliminate the bracket creep income tax hike by re-indexing the income tax system to inflation.

## Balancing the budget and paying down the debt

Many Albertans remember the iconic image of former premier Ralph Klein holding up the “Paid in Full” sign in the summer of 2004 to symbolize a debt-free Alberta government.

Fast forward a decade and a half later and the Alberta government is heading towards a budget nightmare. Its budget deficit is expected to surpass \$8 billion in 2019,<sup>4</sup> and the provincial debt has already passed the \$70-billion mark – equivalent to a debt tab of more than \$16,000 for every man, woman and child in Alberta.<sup>5</sup>

It's clear that Alberta has a problem. The problem is that our provincial government spends too much of our money, not that the government isn't taking enough from our wallets. We're not going to solve this problem by letting politicians take billions of dollars more. We're going to solve this problem by rolling back years of runaway Alberta government spending.

Between 2004 and 2015, the Alberta government's program spending doubled. At an average growth rate of 7.1 per cent per year, spending outpaced average revenue growth rate of 4.6 per cent. Beginning in 2004, had the government only increased spending to keep up with inflation-plus-population growth, a budget surplus would have occurred in every year during this time frame. But even when revenues were running high, the government still ran seven deficits.<sup>6</sup> And when taxpayers needed tax relief the most, the New Democrat administration increased spending by 16.5 per cent.<sup>7</sup>

After comparing Alberta and British Columbia's government spending and revenues, it's clear that Alberta has a spending problem and does not have a revenue problem.

As Table 1 illustrates, even with last year's relatively low non-renewable resource revenues, the Alberta government still brought in more revenue per-person than British Columbia.

Table 1

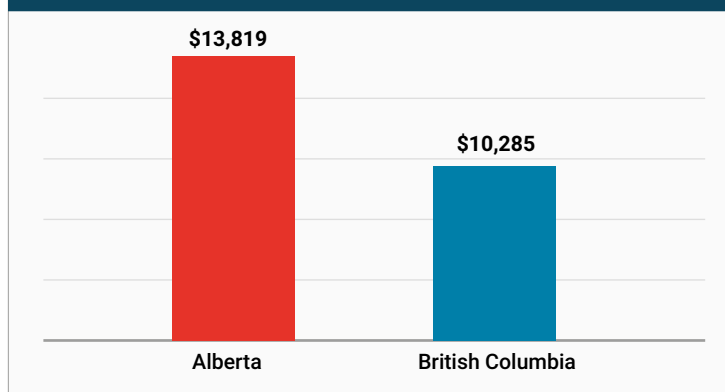
### Per-person revenue 2018 Alberta vs. B.C.<sup>8</sup>

	Alberta	B.C.
2018 Revenue	\$49,624,000,000	\$57,128,000,000
2018 Population	4,335,768	5,031,893
<b>2018 Revenue Per Person</b>	<b>\$11,445</b>	<b>\$11,353</b>

The Alberta government doesn't have a revenue problem, it has a spending problem. As Figure 1 illustrates, the Alberta government spends \$3,534 more per-person than the B.C. government every year.

Figure 1

### Per-person spending 2017 Alberta vs. B.C.<sup>9</sup>



<sup>4</sup> Alberta government, “Fiscal Plan: A plan for jobs and the economy 2019–23,” 2019, <https://open.alberta.ca/dataset/3d732c88-68b0-4328-9e52-5d3273527204/resource/2b82a075-f8c2-4586-a2d8-3ce8528a24e1/download/budget-2019-fiscal-plan-2019-23.pdf>

<sup>5</sup> Canadian Taxpayers Federation, Alberta Debt Clock, <https://www.debtclock.ca/provincial-debtclocks/alberta/>

<sup>6</sup> Steve Lafleur, Ben Eisen, Milagros Palacios, and Charles Lammam, “Alberta’s Budget Deficit: Why Spending Is to Blame,” Fraser Institute 2017, <https://www.fraserinstitute.org/sites/default/files/albertas-budget-deficit-why-spending-is-to-blame-2017.pdf>

<sup>7</sup> See budget 2016 for 2014 actual spending: <https://open.alberta.ca/dataset/c341d72a-c424-4d6d-8c64-4ff250e50775/resource/4d67f16d-21b5-4bf6-b7d0-ec2ebfc66185/download/fiscal-plan-complete.pdf>; for 2018 actual spending see Budget 2019: <https://open.alberta.ca/dataset/3d732c88-68b0-4328-9e52-5d3273527204/resource/2b82a075-f8c2-4586-a2d8-3ce8528a24e1/download/budget-2019-fiscal-plan-2019-23.pdf>

<sup>8</sup> For population see Statistics Canada quarterly estimates (2019 Q1 is used for 2018 fiscal year): <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1710000901>; Alberta revenue from 2018 Annual Report: <https://open.alberta.ca/dataset/9c81a5a7-cdf1-49ad-a923-d1ecb42944e4/resource/978f7724-6317-4504-9795-53d11338e637/download/2018-19-final-results-year-end-report.pdf>; BC revenue from 2019 Q1 report: <https://www2.gov.bc.ca/assets/gov/british-columbians-our-governments/government-finances/quarterly-reports/2019-20-q1-report.pdf>

<sup>9</sup> Blue Ribbon Panel on Alberta’s Finances, “Report and Recommendations,” 2019, <https://open.alberta.ca/dataset/081ba74d-95c8-43ab-9097-cef17a9fb59c/resource/257f040a-2645-49e7-b40b-46e4b5c059c/download/blue-ribbon-panel-report.pdf>

If the Alberta government merely brought its spending in line with B.C., taxpayers would save about \$15 billion every single year, according to data in the Blue Ribbon report.<sup>10</sup> For perspective, over the last two decades, non-renewable resource revenue was at its highest in 2005 when it reached \$14.3 billion.<sup>11</sup> If Alberta spent like B.C. last year, we could have balanced the budget even if non-renewable resource revenues approached zero.

While Budget 2019 reduces operating spending by 2.8 per cent by the end of 2022, total spending is still going up. Not only is total spending increasing in 2019, but it is expected to be \$174 million higher in 2022 than it was under the Alberta NDP. A key issue is that the government is not reducing spending in every department. As Table 2 illustrates, spending is not being cut in health or education budgets, which are the two biggest operating expenses and combined account for 60 per cent of the operating budget.

every year. If the Alberta government brought its per student spending on K-12 education in line with B.C., Alberta taxpayers would save another \$1 billion every year.<sup>13</sup>

The growing spending means more and more debt is being added on to the back of future taxpayers. As Figure 2 illustrates, the government is expecting to add more than \$30 billion in debt by the end of 2022.

Figure 2

### Alberta's growing government debt (billions \$)<sup>14</sup>

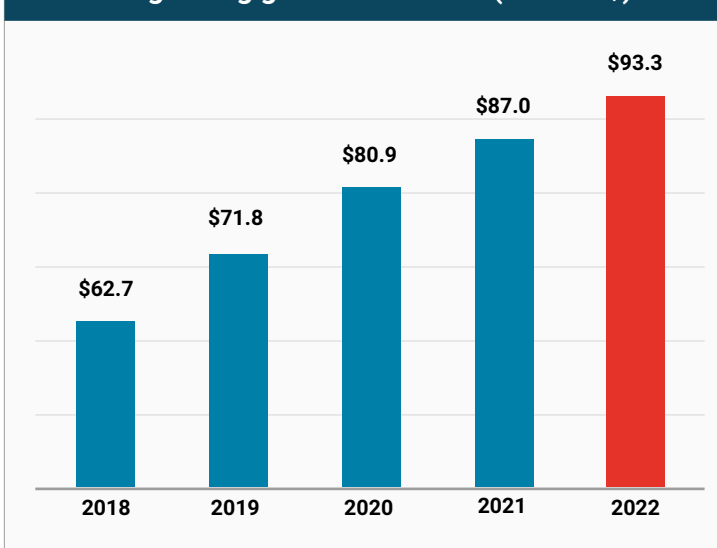


Table 2

### Health and education spending (millions \$)<sup>12</sup>

	2018	2019	2020	2021	2022	% of Operating Budget 2019
Health	\$20,409	\$20,610	\$20,616	\$20,632	\$20,672	42.8%
Education	\$8,223	\$8,223	\$8,223	\$8,223	\$8,223	17.1%

Big savings will be difficult to achieve if politicians aren't willing to touch the health care or education budgets. If the Alberta government brought its per person spending on health care in line with B.C., Alberta taxpayers would save \$3.5 billion

Taxpayers also have to pay the interest on the debt. By 2022, the interest charges are forecasted to surpass \$3 billion. That means each Albertan will lose about \$650 in 2022 to pay bond fund managers on Bay Street for interest charges on the provincial government debt.<sup>15</sup>

<sup>10</sup> Blue Ribbon Panel on Alberta's Finances, "Report and Recommendations," 2019, <https://open.alberta.ca/dataset/081ba74d-95c8-43ab-9097-cef17a9fb59c/resource/257f040a-2645-49e7-b40b-462e4b5c059c/download/blue-ribbon-panel-report.pdf>

<sup>11</sup> Alberta Government, "Budget 2007: Managing our Growth," 2007, <https://open.alberta.ca/dataset/3a6b07bf-92a0-40b6-9cf1-966ef67c2b22/resource/e7035b20-7210-42c7-a9cd-387ce28f9a2f/download/fiscal-plan-complete-2007-10.pdf>

<sup>12</sup> Alberta government, "Fiscal Plan: A plan for jobs and the economy 2019–23," 2019, <https://open.alberta.ca/dataset/3d732c88-68b0-4328-9e52-5d3273527204/resource/2b82a075-f8c2-4586-a2d8-3ce8528a24e1/download/budget-2019-fiscal-plan-2019-23.pdf>

<sup>13</sup> Per person spending from Blue Ribbon report: <https://open.alberta.ca/dataset/081ba74d-95c8-43ab-9097-cef17a9fb59c/resource/257f040a-2645-49e7-b40b-462e4b5c059c/download/blue-ribbon-panel-report.pdf>; Population figures from Statistics Canada: <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1710000901>; Student enrollment figures from Milke and MacPherson: [http://www.taxpayer.com/media/PCE&CTF\\_Education\\_Report.pdf](http://www.taxpayer.com/media/PCE&CTF_Education_Report.pdf)

<sup>14</sup> Alberta government, "Fiscal Plan: A plan for jobs and the economy 2019–23," 2019, <https://open.alberta.ca/dataset/3d732c88-68b0-4328-9e52-5d3273527204/resource/2b82a075-f8c2-4586-a2d8-3ce8528a24e1/download/budget-2019-fiscal-plan-2019-23.pdf>

<sup>15</sup> For debt servicing costs see Budget 2019: <https://open.alberta.ca/dataset/3d732c88-68b0-4328-9e52-5d3273527204/resource/2b82a075-f8c2-4586-a2d8-3ce8528a24e1/download/budget-2019-fiscal-plan-2019-23.pdf>; For population estimates see Alberta Government: <https://open.alberta.ca/opendata/alberta-population-projections-2019-2046-alberta-census-divisions-and-economic-regions-data-tables>

The United Conservative government has already promised to balance the budget within its first term and Budget 2019 lays the path to balance by 2022. But the additional \$30 billion in debt shows the need for longer-term planning. On this, the Alberta government should take a page from the reforms introduced in the 1990s and implement a balanced budget and debt retirement law, including the following restraints.

First, total spending and all department budgets (including health care and education) must see cuts until the budget is balanced. Second, deficits must be outlawed after 2021 with penalties to MLAs if deficits persist. As head of the Canadian Taxpayers Federation in the 1990s, Premier Jason Kenney pushed for balanced budget laws where MLA compensation would be reduced by the same percentage that the yearly targets for deficit reduction were off.<sup>16</sup>

Once the budget is balanced limits should be put in place to ensure that program spending cannot increase faster than population plus inflation growth, unless voters approve the spending increase in a provincial referendum. Finally, Alberta's new law should include a debt retirement schedule, similar to the Fiscal Responsibility Act implemented in 1999,<sup>17</sup> to hold politicians accountable if they are not taking the debt problem seriously.

**Recommendation:** Reduce total spending and spending in every department until budget is balanced

**Recommendation:** Implement a balanced budget and debt retirement act with the following taxpayer protections:

- Total spending cuts until the budget is balanced
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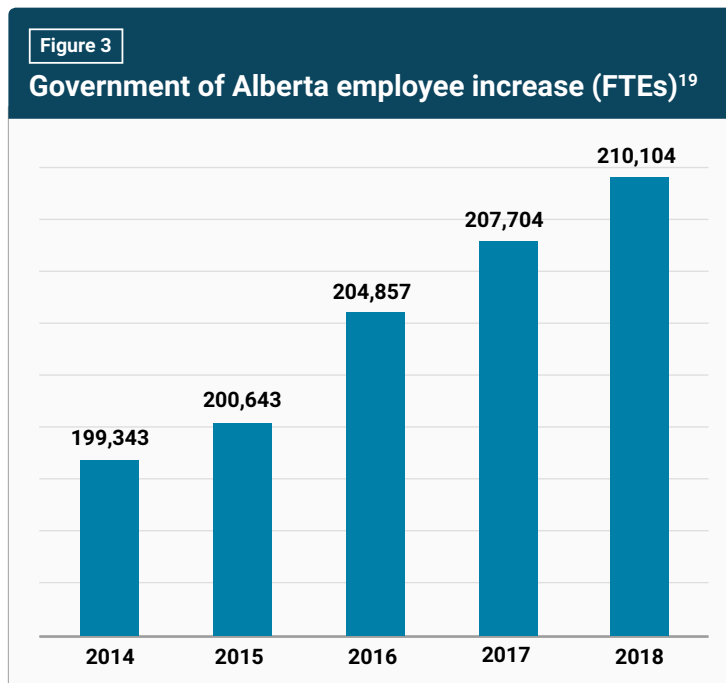
<sup>16</sup> Ashley Geddes, "Group demands tax freeze," Calgary Herald 1993, <https://www.newspapers.com/image/485025468/?terms=jason%2Bkenney>

<sup>17</sup> Alberta Government, "Budget 99: The Right Balance," <https://open.alberta.ca/dataset/fab24985-b225-4e8a-aae6-872c1b0953aa/resource/63d43e29-3a89-4976-b6cd-e23055c91821/download/fiscal-plan-complete-budget1999.pdf>.

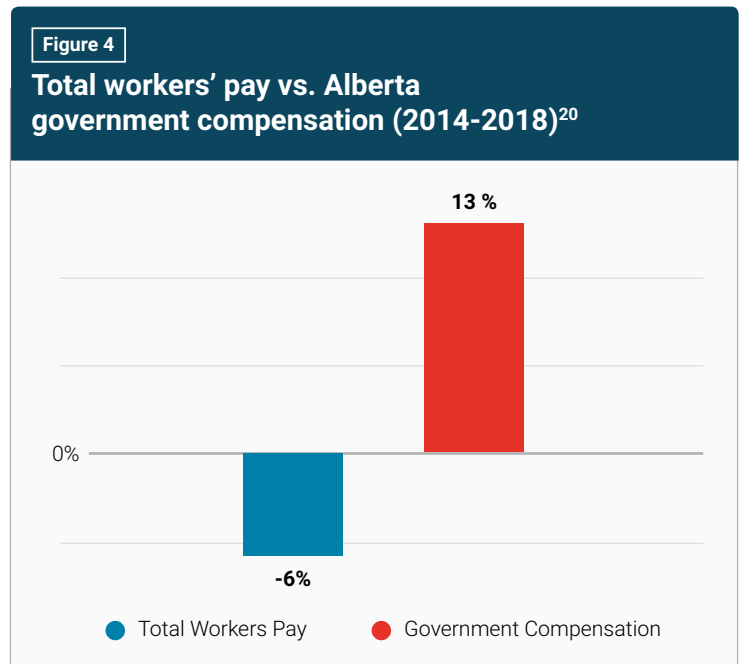
## Reducing Alberta's ballooning labour costs

At \$27 billion, Alberta's government employee compensation costs represent 55 per cent of its operating budget and its single largest expense.<sup>18</sup> If the Alberta government wants to meaningfully rein in its spending, then it will have to begin with addressing employee compensation.

Since 2014, there has been over 10,000 government of Alberta employees added (Figure 3).



Total workers' pay in the province has declined since 2014 highs, while the compensation bill for government employees has increased by nearly \$3 billion, or nearly 13 per cent. Figure 4 contrasts the decline in total workers' pay in the province with growing government labour costs.



While the previous administration touted wage freezes, these freezes still cost taxpayers millions of dollars.

For thousands of government employees, pay freezes over the last few years weren't actually pay freezes. While government employees may not have been rewarded with a new pay grid, they could still receive a raise by moving up their current grid.<sup>21</sup> A freedom-of-information request filed by the CTF shows that the so-called pay freeze for nurses cost taxpayers \$17 million in 2017.<sup>22</sup> The Blue Ribbon Panel made the same observation noting that "even when salary increases remain at zero, unionized employees are eligible to receive annual merit/inrange increases as they move through the grid, which means that they are eligible for increases as high as 16 per cent over four years."<sup>23</sup>

<sup>18</sup> Alberta government, "Fiscal Plan: A plan for jobs and the economy 2019–23," 2019, <https://open.alberta.ca/dataset/3d732c88-68b0-4328-9e52-5d3273527204/resource/2b82a075-f8c2-4586-a2d8-3ce8528a24e1/download/budget-2019-fiscal-plan-2019-23.pdf>

<sup>19</sup> Blue Ribbon Panel on Alberta's Finances, "Report and Recommendations," 2019, <https://open.alberta.ca/dataset/081ba74d-95c8-43ab-9097-cef17a9fb59c/resource/257f040a-2645-49e7-b40b-462e4b5c059c/download/blue-ribbon-panel-report.pdf>

<sup>20</sup> 2018 government compensation: <https://open.alberta.ca/dataset/3d732c88-68b0-4328-9e52-5d3273527204/resource/2b82a075-f8c2-4586-a2d8-3ce8528a24e1/download/budget-2019-fiscal-plan-2019-23.pdf>; 2014 government compensation: <https://open.alberta.ca/dataset/c341d72a-c424-4d6d-8c64-4ff250e50775/resource/4d67f16d-21b5-4bf6-b7d0-ec2ebfc66185/download/fiscal-plan-complete.pdf>; Total workers pay change: <https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=3610020501>

<sup>21</sup> For more information on this see Canadian Taxpayers Federation, "A Couple Quick Notes About Government Employee 'Pay Freezes' in Alberta," <https://www.taxpayer.com/blog/a-couple-quick-notes-about-government-employee-pay-freezes-in-alberta>

<sup>22</sup> Canadian Taxpayers Federation, Alberta Health Services Freedom of Information Request 2018, [https://www.taxpayer.com/media/FOI%20%E2%80%93%20Nurse%20Pay%20Increases\(2\).pdf](https://www.taxpayer.com/media/FOI%20%E2%80%93%20Nurse%20Pay%20Increases(2).pdf)

<sup>23</sup> Blue Ribbon Panel on Alberta's Finances, "Report and Recommendations," 2019, <https://open.alberta.ca/dataset/081ba74d-95c8-43ab-9097-cef17a9fb59c/resource/257f040a-2645-49e7-b40b-462e4b5c059c/download/blue-ribbon-panel-report.pdf>



Furthermore, Alberta's government employees tend to earn higher salaries and more lucrative benefits than their counterparts in business and in other comparable provinces. A 2019 Fraser Institute report looked at compensation and benefit gaps in Alberta between government employees and those working in the business community. After controlling for factors such as gender, age, marital status, education, tenure, size of firm, job permanence, immigrant status, industry, occupation and full- or part-time status the report found that government employees tend to receive more generous salaries and benefits than those working outside of government. The report's findings are summarized in the table below.

Table 3

### Alberta's compensation gap – business vs. government (federal, provincial, municipal)<sup>24</sup>

Categories	Business	Government
<b>Salary differential</b>		+9.3%
<b>Workers with workplace pension</b>	20.3%	70.2%
<b>Workers with defined benefit pension</b>	6.3%	66.8%
<b>Probability of losing a job</b>	3.2%	0.6%
<b>Retirement</b>		1.8 years earlier
<b>Sick days<sup>25</sup></b>	5.7 days	14.4 days

Government employees tend to have the costliest type of pension plan – defined benefits plan – which is scarcely available to workers outside of government. Under defined benefit plans, the Alberta government guarantees pension payments decades later and taxpayers are forced to take on the risk of bailing out the funds when they bust.

According to the Fraser Institute, additional taxpayer contributions have been made to cover pension plan shortfalls in the pre-1992 Teachers' Pension Plan, Universities Academic Pension plan, the Special Forces plan, the Management

Employees plan, the Public Services Pension Plan and the Local Authorities Pension Plan.<sup>26</sup>

The Alberta government should take a page from Saskatchewan's NDP government of the 1970s to deal with the pension issue. The Saskatchewan government under former premier Allan Blakeney recognized how defined benefit pension plans can lead to shortfalls which then require taxpayer cash to bailout the fund. The government enacted legislation to move new government employees from these risky defined benefit plans to RRSP-style pensions, effectively ending the practice of adding new pension liabilities paid for by taxpayers. While Saskatchewan's taxpayers are still paying for previous defined benefit plans, they no longer need to worry about unfunded liabilities for the newer government employees in the RRSP-style plans.

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*"The potential for new shortfalls in Saskatchewan's public sector pensions ended in the 1970s. As Saskatchewan's auditors-general have observed, future cash flows needed to fund defined benefits plans will continue to increase until 2021, then decline thereafter on a path that will permanently extinguish Saskatchewan's obligations to the long-closed public sector pension plans that presumed upon the tax dollars of future generations," according to a Fraser Institute report.<sup>27</sup>*

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According to freedom of information requests obtained by the Canadian Taxpayers Federation, taxpayers are also paying for unreasonable benefits for UNA nurses, including second pensions, over-time pay for employees who haven't worked full-time hours and bonuses that aren't related to performance.<sup>28</sup> The government should undertake a comprehensive review of the benefits being received by its employees and better align them with norms in the business community.

<sup>24</sup> Milagros Palacios, Nathaniel Li, and Steve Lafleur, "Comparing Government and Private Sector Compensation in Alberta," Fraser Institute 2019, <https://www.fraserinstitute.org/sites/default/files/comparing-govt-and-private-sector-compensation-in-ab-2019.pdf>.

<sup>25</sup> Canadian Taxpayers Federation, "Labour Day Reality Check: Government Sick Days," 2019, <https://www.taxpayer.com/media/LDRC-2019.pdf>

<sup>26</sup> Mark Milke and Gordon B. Lang, "Public Sector Pensions: Options for Reform from the Saskatchewan NDP," <https://www.fraserinstitute.org/sites/default/files/public-sector-pensions-options-for-reform-from-the-saskatchewan-NDP.pdf?fbclid=IwAR0h6aBmJ54TyjDS5V13ZPF7IBIXs3TNic0w7esPzVrbdwWZ2prbr6Mylik>

<sup>27</sup> Mark Milke and Gordon B. Lang, "Public Sector Pensions: Options for Reform from the Saskatchewan NDP," <https://www.fraserinstitute.org/sites/default/files/public-sector-pensions-options-for-reform-from-the-saskatchewan-NDP.pdf?fbclid=IwAR0h6aBmJ54TyjDS5V13ZPF7IBIXs3TNic0w7esPzVrbdwWZ2prbr6Mylik>

<sup>28</sup> Canadian Taxpayers Federation, "Nurses' golden benefits must be reined in: Taxpayers Federation," 2020, <https://www.taxpayer.com/news-releases/nurses-golden-benefits-must-be-reined-in-taxpayers-federation>

Not only is government compensation out of line with recent trends in the private sector, Alberta's government employees are also overpaid compared to their counterparts in other provincial governments. The CTF obtained Alberta government data through freedom of information requests for 81 government occupations and 74 of them receive higher compensation (salaries and benefits) in Alberta than the average in the other provinces examined (British Columbia, Saskatchewan, Manitoba and Ontario). More than 56 per cent of the Alberta government occupations receive over \$10,000 more than the average in the other provinces (Table 4).

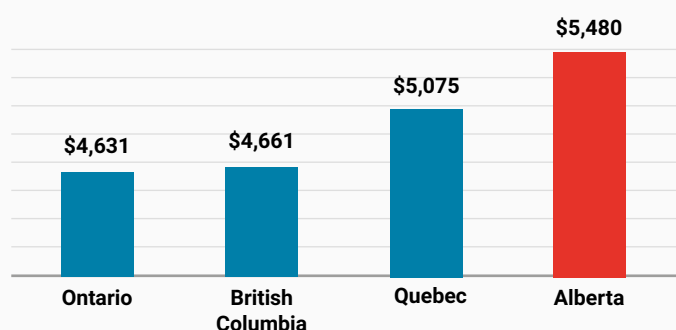
Table 4

Summary of FOI data on government compensation<sup>29</sup>

Number of occupations	81
Number of Alberta occupations receiving more than other provinces	74
Number of Alberta occupations receiving over \$10,000 more than other provinces	46

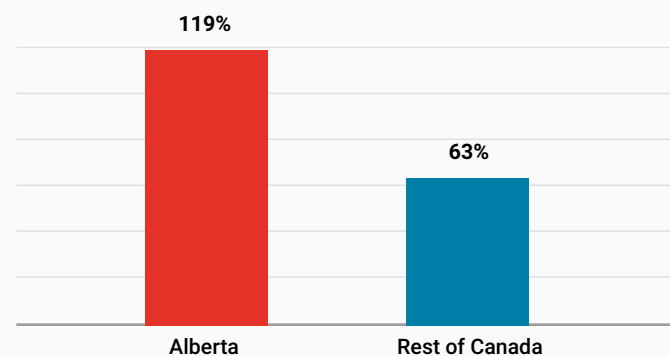
As Figure 5 illustrates, the Alberta government spends more per-person on employee compensation than comparable provinces. If the government brought its compensation in line with these peer provinces, Alberta taxpayers would save \$3 billion every year.

Figure 5

Per-person government compensation costs 2018<sup>30</sup>

Government compensation in Alberta being out-of-line with other provinces is not a new phenomenon. As Figure 6 illustrates, between 2000 and 2010 the Alberta government's wage tab increased almost double the rate of growth in the rest of Canada.

Figure 6

Growth in government wage bills, Alberta vs. rest of Canada (2000-2010)<sup>31</sup>

With the government's current \$70 billion debt problem, not only are cuts needed, they're clearly warranted.

**Recommendation:** Bring government labour costs in line with peer provinces such as B.C., Ontario and Quebec to save billions of dollars every year.

**Recommendation:** Outlaw defined-benefit pension plans for new government employees. Options for reform can include putting new employees in RRSP-style defined contributions plans.

**Recommendation:** Conduct comprehensive review of government benefits and align them with business norms.

<sup>29</sup> Canadian Taxpayers Federation, "Inflated Alberta Government Employee Compensation," 2020, <https://www.taxpayer.com/media/CTF-LabourReport-13Jan2020.pdf>

<sup>30</sup> Alberta government, "Fiscal Plan: A plan for jobs and the economy 2019-23," 2019, <https://open.alberta.ca/dataset/3d732c88-68b0-4328-9e52-5d3273527204/resource/2b82a075-f8c2-4586-a2d8-3ce8528a24e1/download/budget-2019-fiscal-plan-2019-23.pdf>

<sup>31</sup> Ken Boessenkool and Ben Eisen, "Public Sector Wage Growth in Alberta," School of Public Policy 2012, <https://www.policyschool.ca/wp-content/uploads/2016/03/boessenkool-public-wage-growth.pdf>

# Economic Growth Without Corporate Welfare

By focusing on reducing taxes and red tape, the new government appears to be on the right track towards firing up the economy.

There's plenty of evidence from our own backyard that suggests that Alberta's business tax cut will help grow the economy and get Albertans back to work. In 2001, the Alberta government began reducing its business tax rate from 15.5 per cent to 10 per cent in 2006. Alberta's average yearly real GDP growth rate between 2001 and 2014 was higher than all other provinces. For workers, annual job gains over this period outpaced these other regions.<sup>32</sup>

Even with the tax cut, the government's revenue from business taxes more than doubled from \$2.2 billion in 2001<sup>33</sup> to \$5.8 billion in 2014,<sup>34</sup> a faster growth rate than the booming economy.<sup>35</sup>

In contrast, the NDP government's two-percentage-point business tax hike was a failure. In 2014, the 10 per cent business tax generated \$5.8 billion.<sup>36</sup> The 12 per cent business tax only generated \$4.9 billion in 2018.<sup>37</sup> Albertan workers were hurt too. The business tax hike cost the average two-income household \$830 per year in lost earnings, according to a University of Calgary report.<sup>38</sup>

Although the Alberta government is on the right track, it still hasn't committed to ending all corporate welfare. Specifically, the government has handed out business subsidies through the Alberta Enterprise Corporation<sup>39</sup> along with subsidies for petrochemical firms<sup>40</sup> and the film industry.<sup>41</sup>

While politicians like to put a positive spin on their business handouts, the truth is that corporate welfare has been haunting taxpayers for a long time. Kenney acknowledged this issue when he was with the Canadian Taxpayers Federation. "For too long, politicians have pretended that they were businessmen, investing with other peoples' money and they made an absolute failure out of it," stated Kenney in 1995.<sup>42</sup> In fact, Kenney even pushed for a law to outlaw corporate welfare in Alberta.

Between 1973 and 1993 the Alberta government's corporate welfare project cost taxpayers more than \$2 billion. The government's history of costly and failed development projects include: NovaTel, Swan Hills Waste Treatment Plant, Lloydminster Bi-Provincial Upgrader, Millar Western Pulp Ltd., Gainers, Magnesium Company of Canada, Prince Rupert Grain Terminal (Ridley Grain Ltd.), Alberta Pacific Forest Industries (Al-Pac), Chembiomed, Canadian Commercial Bank, Northern Lite Canola and General Systems Research.<sup>43</sup>

**Recommendation:** Eliminate all forms of corporate welfare, specifically dissolving the Alberta Enterprise Corporation and scrapping the subsidies for petrochemical firms and the film industry.

**Recommendation:** Outlaw corporate welfare defined as direct subsidies, grants, loans, loan-guarantees, niche tax credits and financial support to businesses delivered through government programs.

<sup>32</sup> Ben Eisen, Steve Lafleur and Milagros Palacios, "The End of the Alberta Tax Advantage," Fraser Institute 2017, <https://www.fraserinstitute.org/sites/default/files/end-of-the-alberta-tax-advantage.pdf>.

<sup>33</sup> Alberta government, Budget 2003, <https://open.alberta.ca/dataset/8e66e0e9-7ccc-42c5-8522-919d6c2d1fe9/resource/8732c0eb-69bb-495e-b9a9-5062813aba78/download/fiscal-plan-complete-2003.pdf>

<sup>34</sup> Alberta government, Budget 2016, <https://open.alberta.ca/dataset/c341d72a-c424-4d6d-8c64-4ff250e50775/resource/4d67f16d-21b5-4bf6-b7d0-ec2ebfc66185/download/fiscal-plan-complete.pdf>

<sup>35</sup> Alberta government, "Gross Domestic Product," <https://economicdashboard.alberta.ca/GrossDomesticProduct>

<sup>36</sup> Alberta government, Budget 2016, <https://open.alberta.ca/dataset/c341d72a-c424-4d6d-8c64-4ff250e50775/resource/4d67f16d-21b5-4bf6-b7d0-ec2ebfc66185/download/fiscal-plan-complete.pdf>.

<sup>37</sup> Alberta Government, Annual Report 2018, <https://open.alberta.ca/dataset/9c81a5a7-cdf1-49ad-a923-d1ecb42944e4/resource/978f7724-6317-4504-9795-53d11338e637/download/2018-19-final-results-year-end-report.pdf>.

<sup>38</sup> Kenneth J. McKenzie and Ergete Ferede, "Why Pays the Corporate Income Tax?: Insights from the Literature and Evidence for Canadian Provinces," University of Calgary School of Public Policy 2017, <https://www.policyschool.ca/wp-content/uploads/2017/04/Corporate-Tax-McKenzie-Ferede1.pdf>.

<sup>39</sup> Alberta Enterprise Corporation, "Alberta Enterprise Corporation Invests in New Fund that Aligns with Alberta's Strengths in Industrial Innovation and AI," 2019, <https://www.alberta-enterprise.ca/alberta-enterprise-corporation-invests-in-new-fund-that-aligns-with-albertas-strengths-in-industrial-innovation-and-ai/>.

<sup>40</sup> Alberta government, "Attracting investment in petrochemicals," 2019, <https://www.alberta.ca/release.cfm?xID=64693C0FB74D7-F065-9297-32348E2C11FB5D74>

<sup>41</sup> Alberta government, "Lights, camera, action: New film credit launched," 2020, <https://www.alberta.ca/release.cfm?xID=6850577E92B12-BF5E-0CFF-143B83574976C315>

<sup>42</sup> Brian Laghi, "Group Seeks Law to Forbid Government Investment in Business," Edmonton Journal 1995, <https://www.newspapers.com/image/475420564/?terms=jason%2Bkenney>.

<sup>43</sup> Ted Morton and Meredith McDonald, "The Siren Song of Economic Diversification: Alberta's Legacy of Loss," University of Calgary, School of Public Policy, 2015, <https://www.policyschool.ca/wp-content/uploads/2016/03/siren-song-economic-diversification-morton-mcdonald.pdf/>

## Scrapping the bracket creep income tax hike

Bracket creep is a hidden tax that occurs when governments don't move tax brackets with inflation and taxpayers automatically get bumped into a higher tax bracket even though we can't actually afford to buy more.

Leading up to the 2019 budget, Premier Kenney promised Albertans that he would balance the books without increasing taxes.<sup>44</sup> But the budget included bracket creep, which is estimated to cost Albertans \$600 million.<sup>45</sup>

As Table 5 outlines, bracket creep could cost a two-income household between \$70 and \$222 in 2020, depending on income level.

The last thing Albertans need right now is the government taking more income through taxes, especially in today's economy. Furthermore, Alberta has a spending problem now a revenue. As outlined above, the Alberta government brought in more revenue per-person than the B.C. government did last year. And if the Alberta government spent like the B.C. government did, Alberta would spend about \$15 billion less every year.

To Quote the Blue Ribbon Panel:

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*"Raising taxes to find more money for the current level of programs and services is not the answer. If a family was paying more than their neighbours for having their car serviced and getting worse results, it would not simply find more money to pay the higher costs. Instead, it would find out what others were doing to get better results at a lower cost."*<sup>47</sup>

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**Recommendation:** Eliminate the bracket creep income tax hike by re-indexing the income tax system to inflation.

<div>Table 5</div> <div>Cost of bracket creep on two-income household in 2020<sup>46</sup></div>	
Individual incomes	Cost
\$30,000	\$72
\$40,000	\$72
\$50,000	\$74
\$60,000	\$70
\$80,000	\$70
\$100,000	\$70
\$150,000	\$164
\$200,000	\$222

<sup>44</sup>Sammy Hudes, "Kenney says no new taxes, 'more bang for taxpayers' buck", in first budget on Oct. 24," Calgary Herald 2019, <https://calgaryherald.com/news/politics/ucp-to-table-first-budget-on-oct-24>

<sup>45</sup>Alberta government, "Fiscal Plan: A plan for jobs and the economy 2019–23," 2019, <https://open.alberta.ca/dataset/3d732c88-68b0-4328-9e52-5d3273527204/resource/2b82a075-f8c2-4586-a2d8-3ce8528a24e1/download/budget-2019-fiscal-plan-2019-23.pdf>

<sup>46</sup>Canadian Taxpayers Federation, "2020 New Years Tax Changes," 2019, <https://www.taxpayer.com/media/NYTC-2020-EN.pdf>

<sup>47</sup>Blue Ribbon Panel on Alberta's Finances, "Report and Recommendations," 2019, <https://open.alberta.ca/dataset/081ba74d-95c8-43ab-9097-cef17a9fb59c/resource/257f040a-2645-49e7-b40b-462e4b5c059c/download/blue-ribbon-panel-report.pdf>