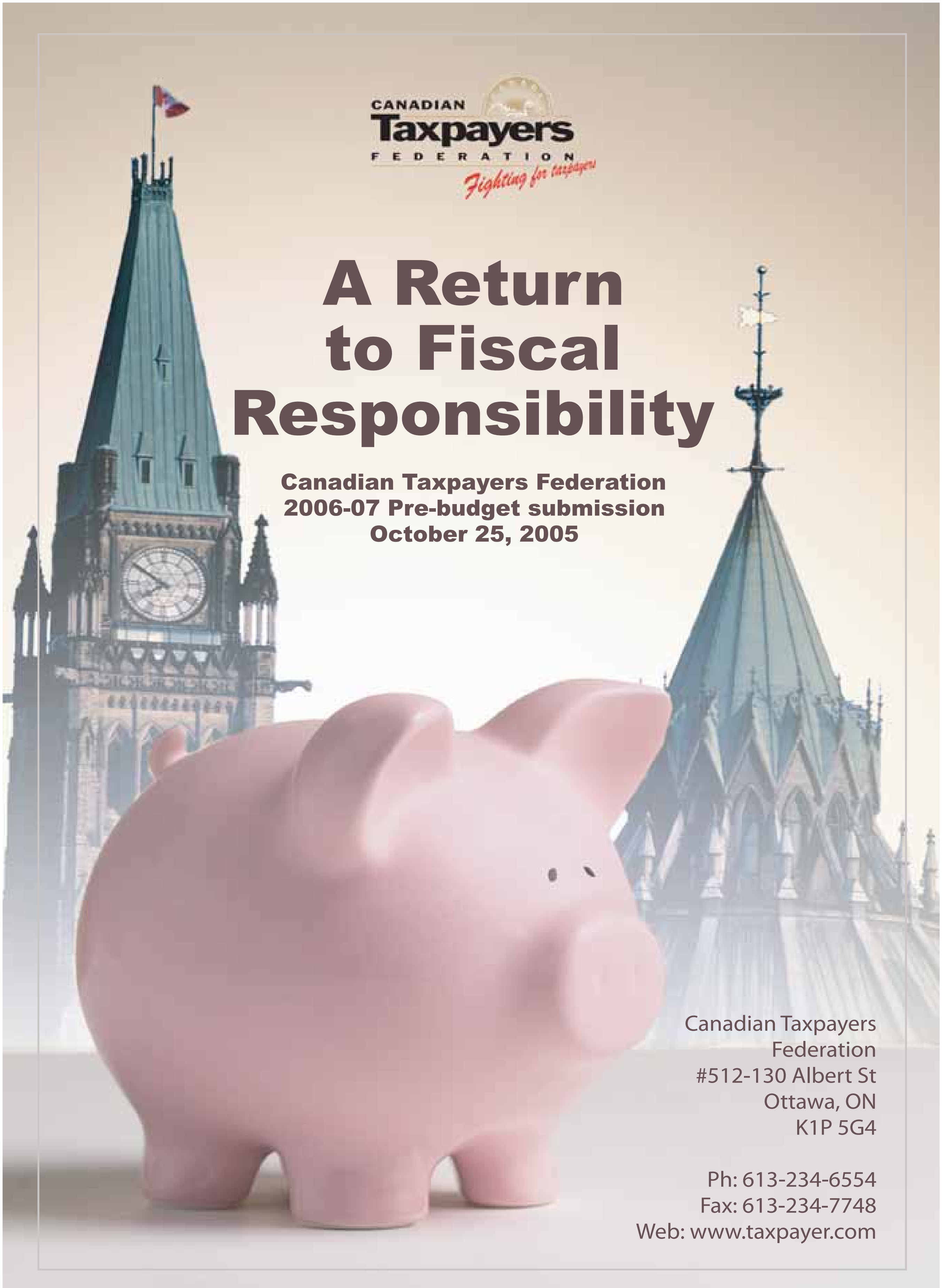

A Return to Fiscal Responsibility

Canadian Taxpayers Federation
2006-07 Pre-budget submission
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CANADIAN TAXPAYERS FEDERATION

2006/2007 PRE-BUDGET SUBMISSION
A RETURN TO FISCAL RESPONSIBILTY

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Summary of Recommendations

1. The federal government's fiscal strategy must be built on three pillars: (1) tax relief combined with fair and competitive taxation; (2) legislated debt reduction; and (3) controlling the growth of spending by redefining the role of government and ensuring program initiatives are warranted and achieving measurable public policy outcomes.

2. The top two personal income tax rates should be reduced by 3 per cent, phased-in over three years, from 29 per cent to 26 per cent and 26 per cent to 23 per cent.

3. The Basic Personal Exemption and Spousal Exemption should each be immediately increased to $10,000 and to $15,000 within four years, and subsequently remain indexed to inflation.

4. Ottawa should cut gasoline taxes by 5 cents per litre by ending its GST tax-on-tax bite, scrapping the deficit elimination tax, and reducing the federal levy by 2 cents.

5. The federal government should redress inequalities in the payroll tax regime by reducing premiums and harmonizing the employer insurance premiums with those of employees.

6. The federal government should expand the income trusts tax preference to all dividend-paying investments by doing away with the double taxation of dividends.

7. Excessive mortgage insurance rates charged to Canadian homebuyers by the Canada Mortgage and Housing Corporation should be reduced for new buyers and rebated to existing owners to offset the $4.5-billion surplus this Crown corporation is projected to accumulate by 2009.

8. The federal government should limit expenditure growth to a maximum annual amount of inflation plus population growth.

9. The federal government should institute a legislated debt retirement schedule with annual payments of 5 per cent of total revenues collected.

10. Eliminate the Canada Child Tax Benefit and replace it with a universal $10,000 per child income tax credit or payment. The credit/payment should be available to all parents with children aged eighteen and under.

11. End all corporate welfare and regional development programs, scrap the federal gun registry and implementation of the Kyoto Protocol.

12. Give the Auditor General of Canada and all Members of Parliament the power to review the billions of dollars tucked away in foundations so taxpayers can assess the value of these programs.

Introduction

Canada's first minority Parliament in 25 years has not produced the results taxpayers had hoped for. It has produced a government with little regard for the long term and with no bearings except that it is willing to use tax dollars on a whim to stay in power. The 2005 NDP/Liberal budget amendment was a sharp turn away from fiscal prudence that traded tax cuts for higher spending. It took the management of the nation's finances out of the hands of the minister of finance and put them, albeit briefly, in the hands of the leader of the smallest political party in the House of Commons. The NDP budget amendments will add $4.6-billion to program spending over the next two years. Meanwhile, in fiscal year 2004/05 Ottawa's spending increased by more than $21-billion – an astounding 15 per cent increase over the previous year.

The Gomery Inquiry probe of the sponsorship program and police investigations of criminal activity has further eroded confidence in Canada's public officials. Last spring, as Adscam revelations were pounding Liberal Party fortunes and with a spring election a likely possibility, the government went on an unprecedented spending binge.

On April 20th, Prime Minister Paul Martin took the unusual step of addressing Canadians on national television. While such an undertaking is normally reserved for issues of national importance, Mr. Martin felt that responding to damning allegations made by witnesses testifying before Judge John Gomery fit the bill. After his televised appearance, the federal government made over 250 spending announcements in a month totaling more than $17-billion. This worked out to $600-million per day or $25-million every hour. It is extremely alarming that Ottawa is using tax dollars as a slush fund to be used for whatever is deem necessary to maintain power. Such abuse does not serve taxpayers and should not be tolerated.

Canada's Economic Outlook

Between 1997 and 2005 Canada's employment increased by 2.4 million. GDP growth is steadily increasing and despite rising energy costs, which drove up inflation this summer, the economic outlook remains buoyant. The high Canadian dollar is a challenge to the nation's manufacturing industry, yet high energy prices are a boon to the resource sector. Canada's economic fundamentals remain strong.

Year	Real GDP Growth	CPI / Inflation	Employment Growth
2003	1.9%	2.8%	2.3%
2004	2.9%	1.9%	1.8%
2005^F	2.7%	2.0%*	1.7%
2006^F	3.0%	1.4%	1.1%

*2005 Inflation rate based on average between January and July 2005
2003 – 2004 Data from Statistics Canada
2005 – 2006 Average forecasts by Conference Board of Canada and major Canadian banks

The global economy saw growth of approximately 5 per cent in 2004, which was a 28 year high fueled primarily by the United States and China. Growth is predicted to be slightly weaker in 2005 and 2006 in the 4 per cent range.

Canada's strong economic fundamentals are reflected in growing government revenues. In 2004/05, Ottawa collected $198.4-billion in revenues, $11.2-billion more than forecasted in the 2004 Budget. By 2009/10 federal revenues are projected to exceed $240-billion. Growing employment is another factor contributing to increased government tax revenues. Positive employment growth has allowed incomes to rise, which has contributed to increased federal personal income tax and GST revenues.

SECTION I: FAIR AND HONEST TAXATION

Principles of Taxation

- The tax system should be simple. Government accountability is enhanced when citizens understand their tax system. Complexity is the adversary of accountability.
- The tax burden should be low. Dollars multiply more rapidly in private hands than in government pockets. High tax rates retard wealth creation by discouraging risk-taking, saving, and investment.
- The tax system should be flatter. This is important because simplicity is enhanced with fewer tax brackets.
- As long as the government retains a generous basic personal exemption the tax system will remain fair.
- The purpose of the tax system should be to calculate and collect taxes in the fairest, lowest and most efficient way possible for the operations of government.
- The tax system should generate revenues necessary to cover the cost of essential government programs and services, no more, no less.
- The tax system should not be used as an instrument of social policy, designed as a means to political ends. Taxes are a vehicle for raising revenues.
- The tax system should promote economic prosperity and enhance Canada's competitive position internationally.
- A tax system that is simple, low, flat and fair will:
    1. Promote the incentive to work, save and invest.
    2. Increase disposable incomes.
    3. Generate better economic prosperity for all citizens.

Canadians are Suffering Under a High Tax Burden

Structural over-taxation occurs when a government consistently collects more revenues than it needs to meet its annual funding commitments. Given the previous thirty years of preoccupation with deficit spending, wrapping our minds around the notion that the federal government has too much money is a novel concept. Yet due to Ottawa's structural over-taxation of Canadians, government coffers are overflowing.

Are Canadians better off today than they were 15 or 20 years ago? Many would assume the answer is an emphatic "yes" as people are working and society is producing more goods and services. Yet two recent studies clearly show that our standard of living is not growing. The high tax burden is the culprit.

The Toronto Dominion Bank (a Bay Street institution) and the Vanier Institute of the Family (a socially-oriented organization) arrive at the same conclusion: Canadian families' standard of living has not increased since 1989. A January, 2005, TD Bank report concludes that since 1989, Canadians are "slipping down the economic ladder." Meanwhile a January, 2005, Vanier Institute study found some alarming trends: household incomes have remained flat in recent years and Canadians are saving less than ever before. Meanwhile, family debt is increasing, and overall wealth is declining. This is despite the rise of the two-income household. Families are working more but not getting ahead.

Among the most worrisome of findings from the Vanier Institute is the fact that Canadians have no more in their pockets today than they did 20 years ago. Part of the problem is that real incomes have remained flat for the last several years. Average household income stood at approximately $44,000 in 2004, which is roughly what average incomes were in 2001, a figure that has changed little since 1989. In the last 25 years, household incomes have only increased by $2,000 or 3.8 per cent. The effects of income stagnation have hurt Canadians.

Along with income stagnation and decreased savings is a decline in overall wealth. The Vanier Institute reports that net worth has declined for all households under the age of 55, and the standard of living of young Canadians has worsened.

The TD Bank study sums up the declining well-being of Canadian households by concluding it is "the price society is now paying for past government deficits and policy shortcomings." However, Canada's books have been balanced since 1997/98 and Ottawa's record of multi-year and multi-billion dollar surpluses means there is an opportunity to boost after-tax income with dramatic tax relief.

The TD Bank study points out that the take-home pay of workers has not kept pace with GDP growth. Between 1989 and 2004, real GDP per capita rose by a cumulative 26 per cent whereas after-tax real per capita incomes increased by a dismal 3.6 per cent. The tax bite on Canadians increased at a much higher rate than income growth – contributing directly to declining prosperity levels.

The decline in the economic well-being of families and all Canadians is problematic. It speaks volumes about the need for a reduction in the tax burden on households and all individuals.

Tax Relief at Work: The Positive Impact of the 2000-2004 Tax Cuts

Although the Liberal government distorted the true size of its 2000 tax relief program by claiming it to be a $100.5-billion tax cut, the relief was nevertheless welcome news to taxpayers. In actual fact, $20.7-billion of this amount includes the ending of bracket creep, which did not lower taxes, but simply indexed brackets to inflation. In addition, a $28-billion increase in Canada Pension Plan (CPP) premiums is also not included. In addition, almost $6-billion in Canada Child Tax Benefit payments are incorrectly identified as tax relief, instead of being classified as government spending. The real five-year tax cut, once fully implemented at the end of 2004, amounted to $46-billion – a far cry from the $100-billion "as advertised."

It should be noted that the federal treasury has not suffered from lowering taxes. Because of the stimulative effects of lower taxes, between 2000 and 2004, Ottawa's revenues declined not by $100-billion or even $46-billion. Instead, tax revenues dipped – briefly – by only $16-billion. In fact, total revenues in 2004/05 were $15.7-billion *higher* than they were in 2000/01. In other words, government tax revenues today – after cutting taxes – are higher than what Ottawa had estimated they would be *had taxes <u>not</u> been reduced*. (Before accounting for the foregone revenue resulting from the tax reductions between 2000 and 2004, total revenues for 2004/05 were predicted to be $193-billion in the 2000 Economic and Fiscal Update. Yet in Fiscal Reference Tables, September 2005, it was reported revenues were $198.4-billion in 2004/05.)

If we look at Canada's economic performance between 2000 and 2004, the virtues of lower taxes become all the more apparent. Reducing taxes helped grow the economy, fuel job creation, and put money into the pockets of hardworking Canadians. But looking ahead we are beginning to stall vis-à-vis our competitors – making the need for further tax relief measures to sustain our economic growth all the more necessary.

According to the Organization for Economic Co-operation and Development (OECD), our personal income tax burden remains the highest of the G-7 nations. In fact, this standing has not changed in almost a decade. According to the Fraser Institute, taxation by Canadian governments at all levels accounts for 48 per cent of total household income (Tax Freedom Day, 2005).

Our overall tax burden is still far too high. High taxes sap productivity, deters wealth creation, and remains a visible competitive disadvantage for us vis-à-vis the United States and newly emerging economic powers such as China and India. The question that logically follows is how do we rectify this situation to improve the wellbeing of all Canadians?

Personal Income Tax Cuts: The Good Old Reliable Stimulator

The simplest and best remedy for structural over-taxation is broadly based tax relief. Opting to target or gerrymander tax cuts is inherently unfair to those not fortunate enough to meet government criteria: normally middle class taxpayers.

The level of taxes paid by Canadians and the resulting delivery of services – or lack thereof – continues to be an issue of great concern for most taxpayers. Indeed, it is this value for money proposition that continues to yield calls for greater tax relief, especially in light of the spate of scandals that have plagued the government.

Giving Canadians Back Their Money

Canadians need and deserve a significant reduction in taxes, and overflowing public coffers over the past few years makes it clear the federal government can afford to provide it. The Canadian Taxpayers Federation advocates a "***3 and 3***" plan whereby the top two federal income tax rates are reduced by 3 per cent, phased-in over a 3 year period. Therefore, by 2008, the second highest income tax rate would be 23 per cent and the top rate cut to 26 per cent. The other two income tax rates (16 per cent and 22 per cent) will remain the same. Increasing the basic personal exemption will provide tax relief for the bottom two threshholds (see next page for details).

Tax Year	Schedule	26% to 23% (Foregone Revenue)	29% to 26% (Foregone Revenue)	Total in Foregone Revenue
2006	Year 1	$845-million	$963-million	$1.8-billion
2007	Year 2	$1.69-billion	$1.93-billion	$3.6-billion
2008	Year 3	$2.54-billion	$2.89-billion	$5.4-billion
Cumulative				$10.8-billion

CTF Calculations

Over 3 years, the government will forego $10.8-billion, but will make up the revenues in other ways over the long term. The immediate "costs" are mitigated, in part, by the stimulative effect of the reduction as the 2000 to 2004 tax cuts illustrate. The Department of Finance estimated budgetary revenues for 2003/04 at $180.7-billion, yet they came in $6-billion higher at $186.2-billion. Again, revenues for 2004/05 were estimated at $187.2-billion, yet came in at 198.4-billion, a whopping $11-billion difference. This illustrates that a reduction in taxes increases revenues through increased consumption spending, and the additional revenues that come with job creation – greater income tax revenues, additional payroll taxes, etc. In short, tax cuts increase prosperity for all, which inflates government coffers. A new round of tax cuts will produce similar results.

THE TOP TWO INCOME TAX RATES SHOULD BE REDUCED BY 3% PHASED-IN OVER THREE YEARS FROM 29% TO 26% AND 26% TO 23%.

The Basic Personal Exemption & Spousal Exemption

The federal government took baby steps in the right direction in the 2005 budget when it committed to raising the basic personal exemption (BPE) and spousal exemption. These exemptions are the amount of income an individual earns before paying federal income taxes. In 2006, the BPE will increase to $8,248 from $8,148, and will increase to $10, 000 by 2009. The spousal exemption will also rise slowly and be $8,500 by 2009. While the initial tax savings is negligible, it will grow over time.

Tax Year	Tax Exemption	Annual Savings	Spousal Exemption	Annual Savings
2005	$8,148	n/a	$6,899	n/a
2006	$8,248	$16	$6,984	$14
2007	$8,348	$32	$7,069	$27
2008	$8,748	$96	$7,409	$82
2009	$10,000	$192	$8,500	$178

2005/06 Budget Projections and CTF Calculations

While the BPE has been indexed to inflation since 2000 – when bracket creep was elimiated – it is far below the amount it would have been if it were indexed to inflation since 1986 (when bracket creep was first implemented). If the BPE were indexed for inflation since the imposition of the income tax in 1917, it would now exceed $20,000.

A low BPE and spousal exemption means Ottawa taxes people even at the bottom of the income scale. The CTF recommends the BPE be set at $15,000. Why should this personal tax exemption be set at this amount? It is approximately the amount earned in a year by a minimum wage worker. By setting both the BPE and spousal exemption at $15,000, individuals earning $15,000 or less and families with incomes below $30,000 will no longer pay any federal income tax. All other taxpayers will save $1,100 a year; and the tax bill of a dual-income family will fall by $2,200 and that of single-income families by $2,400.

Raising the spousal exemption to match the basic personal exemption will correct a current bias against single income families and improve tax fairness. Our tax system penalizes any family that opts to have one member stay at home. Without dwelling on the clear downgrading of work in the home that this implies, it is particularly unfair to those low-income families struggling to make ends meet as it can push parents into the workforce when they have a young family at home who needs them.

Raising the BPE and spousal exemption over a five year period will result in foregone revenues of $4.3-billion next year, and rise to $27.9-billion in 2009. Such a change will remove 1.8 million Canadians from the tax rolls and also benefit the remaining 13.8 million taxpayers. Over 82 per cent of Canada’s 22.8 million tax filers earn $50,000 or less and 97 per cent make less than $100,000. It is worth repeating that raising the BPE is a tax cut for *all* Canadians, albeit one that provides the greatest benefits to low- and middle-income earners. And spread over five years, it is relatively effortless for Ottawa to allocate the rising surplus and government savings to raise the two exemptions.

Efforts to help Canadian families would be achieved by providing sustained tax relief for low-income parents as opposed to fostering government dependency on income redistribution efforts. This CTF proposal has received editorial acclaim in the ***Vancouver Sun, Montreal Gazette,*** and ***Calgary Sun***.

THE BASIC PERSONAL EXEMPTION AND SPOUSAL EXEMPTION SHOULD EACH BE:

- **IMMEDIATELY INCREASED TO $10,000 AND TO $15,000 WITHIN FOUR YEARS (ACCORDING TO THE FOLLOWING SCHEDULE), AND SUBSEQUENTLY REMAIN INDEXED TO INFLATION.**

2006	**$ 10,000**
2007	**$ 11,500**
2008	**$ 13,000**
2009	**$ 15,000**

Ottawa's Gas Tax Dishonesty

As gasoline prices soar, it is time the federal government ended its tax gouging at the pumps. With average gas prices now over $1 per litre, taxpaying motorists are officially running on empty.

The windfall enjoyed by the federal government as gas prices increase is substantial. For every 10 cent/litre increase in pump prices, an additional $175-million pours into federal coffers. In 2005/06, Ottawa will collect over $6-billion in gas taxes (including GST revenue). Over the next four years, Ottawa will collect over $30-billion in gas taxes, while only giving $5-billion to Canadian municipalities. There is ample room to reduce gas taxes and transfer gas tax revenues to cities.

Adding to Ottawa's gas tax dishonesty is the 1.5 cent/litre "deficit elimination tax" that was imposed in 1995. While the deficit was slain seven years ago the deficit elimination tax remains. Since the budget was balanced, Canadian taxpayers have shelled out approximately $4.7-billion for the "deficit tax" despite there being no deficit. In addition, the GST is a tax-on-tax applied to provincial and federal levies. This tax-on-tax scheme has cost taxpayers another $4.8-billion since 1991.

OTTAWA SHOULD END ITS GST TAX-ON-TAX BITE. THIS WILL LOWER THE PRICE BY 1.5 CENTS A LITRE. NEXT, SCRAP THE DEFICIT ELIMINATION TAX, WHICH WILL SAVE MOTORISTS ANOTHER PENNY AND A HALF. LASTLY, REDUCE THE FEDERAL LEVY BY 2 CENTS, BRINGING TOTAL SAVING TO 5 CENTS A LITRE.

Payroll Taxes: Harmonization in the Name of Job Creation

Prime Minister Paul Martin once said, "High payroll taxes are a cancer on job creation." He has done little to stop the job-killing tumor. While some credit is due for reducing rates, as of fiscal year 2004/05, the Employment Insurance (EI) surplus has ballooned to $48.5-billion. It is obvious rates can – and should – be reduced further. Over the last ten years, the average annual surplus in the EI fund was $5-billion. The CTF urges the federal government to match EI revenues to EI payments over a ten-year business cycle; and harmonize the employer rates with those of employees by reducing EI premiums over the next five years. Getting payroll taxes under control is an economic urgency as high payroll taxes are – simply put – a job killer.

CTF Proposal for Harmonizing Employee/Employer Employment Insurance Premiums

Year	Employee Premiums	Employer Premiums
2005	1.95	2.49
2006	1.92	2.23
2007	1.90	1.98
2008	1.81	1.81
2009	1.70	1.70
2010	1.59	1.59

The "cost" of harmonizing employer-employee rates is a reduction in the EI surplus. The EI surplus was $2.3-billion in fiscal year 2004/05, and with a ten-year average annual surplus of $5-billion, clearly payroll taxes are too high. While this would reduce revenues for the government, it is in the name of job creation. This would not leave the program under-funded, but would ensure that revenues are brought more in line with benefits paid.

The EI program's own actuary has stated that $10-to-$15-billion is needed in the fund to prevent it from falling into deficit in the event of an economic downturn. The cumulative surplus is approaching $50-billion, which is more than three times what is required by law.

Auditor-General Shelia Fraser noted in her 2004 annual report the federal government "has not observed the intent of the Employment Insurance Act." The auditor-general also criticized the fact that the EI surplus is automatically transferred to the government's general revenue because employee and employer premiums are supposed to cover benefits for the unemployed, not pay for other programs.

THE FEDERAL GOVERNMENT SHOULD REDRESS INEQUITIES IN THE PAYROLL TAX REGIME BY REDUCING PREMIUMS AND HARMONIZING THE EMPLOYER INSURANCE PREMIUMS WITH THOSE OF EMPLOYEES.

Stop The Double Taxation of Dividends

Canada Revenue Agency has stopped advanced tax rulings for corporations considering conversion to an income trust and has put the entire issue under review. While "tax reviews" in official Ottawa rightly send shivers through the pocket-books of taxpaying investors, pensioners and retirees – there is also an opportunity. Income trusts are the response to a glaring problem with the income tax system: namely the double taxation of dividends.

Take the example of a company that earns $10-million before taxes. The top corporate rate is about 35 per cent, so $3.5-million is paid in taxes. That leaves $6.5-million to be paid out in dividends, which will be taxed again in the hands of the investor as personal income. Ottawa and the province's collect as much as $5.5-million of the original $10-million. Now take an income trust with the same $10-million in pre-tax income. It can send all that money to investors, who pay personal income tax on it. Net result: the taxman gets no more than $4.6-million and investors pocket at least $1-million more.

There are two issues. First, many experts argue that investment dollars are shifting to income trusts, not because of a better underlying investment, but because of favourable tax treatment. Income trusts, for example, are penalized if they do not pay out an adequate amount of income, thereby creating disincentives to reinvest in the business. Second, federal government officials estimate they could collect another $300-million annually if income trusts were taxed like corporations. Add in provincial governments and the tally rises to $500-million.

The CTF supports any legal means to minimize Canada's heavy tax burden, but we also argue for a tax code that is neutral in its application and rewards business and investment decisions on the underlying profitability. Simply put, it is time to do away with the double taxation of dividends. (Or lower corporate tax rates.) This will do two things. First, it will reduce the incentive to create income trusts and second, it will create opportunities for Canadian businesses to turn profits and pay higher dividends.

Estimates of forgone tax revenues for this change range from $1-to-$4-billion. However, much of that would be made up through increased economic growth and better returns to investors, retirees and pensioners.

The CTF is calling on the federal government to expand the income trusts tax preference to all dividend-paying investments by lowering dividend/business taxes. This move will create a level playing field for businesses, and benefit investors, retirees, pensioners, and all Canadians.

THE FEDERAL GOVERNMENT SHOULD EXPAND THE INCOME TRUSTS TAX PREFERENCE TO ALL DIVIDEND-PAYING INVESTMENTS BY DOING AWAY WITH THE DOUBLE TAXATION OF DIVIDENDS.

Mortgage Insurance: Ottawa's Latest Cash Grab

Canada Mortgage and Housing Corporation (CMHC) is a federal Crown corporation that provides mortgage insurance to homebuyers. It has been dubbed "Ottawa's Tax Bonanza" in *Canadian Business* magazine. Federal law requires mortgage insurance – CHMC's most lucrative product – for buyers without a 25 per cent down payment. Since few, if any, first-time homebuyers have the means to put down 25 per cent, these payments are a cash cow for the federal government and one that is highly unfair to taxpaying would-be homeowners.

With mortgage default extremely low today, Ottawa is benefiting greatly from the mortgage insurance business. In 2004, $1.1-billion was collected by CMHC in premiums and only $51-million was paid out in default claims – a disbursement of less than 5 per cent. In contrast, auto, life, and health insurance firms have a payout ratio of 76 per cent. Critics have pointed out that CMHC's mortgage insurance business has effectively turned homebuyers into a permanent – and lucrative – tax base for the federal government. The fairest solution is to reduce mortgage insurance rates and tax people less.

CMHC is one of the largest financial institutions in the country, and commands over two-thirds of the mortgage insurance business in Canada. (The remainder goes to a lone private sector competitor Genworth Financial Canada, which is a division of General Electric.) Critics point out that business for this "cozy duopoly" is very good. In 2004, 45 per cent of all homebuyers – some 500,000 Canadian families – were required to buy $1.6-billion worth of mortgage insurance. The majority of these people were under the age of 35, and most of those were buying their first home. Over the past ten years CMHC has reaped $3.2-billion in profits from mortgage insurance, which represents over 90 per cent of its retained earnings.

CMHC's mortgage insurance business could soon become a healthy source of revenue for the federal government. It is projected that in 2009 the Crown company will be sitting on cumulative retained earnings of $8.3-billion, and a surplus of $4.5-billion. This Crown money technically belongs to Ottawa. Unless rates are lowered, these excess premiums – collected from homeowners to pay for government-mandated insurance – will eventually find their way into Ottawa's general revenue coffers and be spent.

Homebuyers have already paid too much for mortgage insurance. Mortgage brokers have stated that very few people default on their mortgages after five years, so the rebate should be given to all homeowners in good standing after five years.

EXCESSIVE MORTGAGE INSURANCE RATES CHARGED TO CANADIAN HOMEBUYERS BY THE CANADA MORTGAGE AND HOUSING CORPORATION SHOULD BE REDUCED FOR NEW BUYERS AND REBATED TO EXISTING OWNERS TO OFFSET THE $4.5-BILLION SURPLUS THIS CROWN CORPORATION IS PROJECTED TO ACCUMULATE BY 2009.

SECTION II: EFFICIENCY & RESPONSIBLE GOVERNMENT

Ottawa's History of Bad Math

Federal government budgets are so far off the target in their forecasting of revenues, expenditures and surpluses that they should be filed in the fiction section at public libraries. The result is high taxes, lowball revenues and surpluses, and rampant spending. Under Prime Minister Paul Martin spending is much higher than what was outlined in budget documents and has increased dramatically. In 2004/05, program spending increased by an astounding 15.1 per cent. It is clear that fiscal responsibility is dead on arrival with this government.

Projected Versus Actual Revenues (1997/98 to 2004/05)

Fiscal Year	Projected Revenues $-billion	Actual Revenues $-billion	Difference $-billion
1997-1998	137.80	152.12	14.3
1998-1999	151.00	156.15	5.1
1999-2000	156.70	166.11	9.4
2000-2001	162.00	182.75	20.7
2001-2002	171.30	171.69	0.4
2002-2003	174.70	177.93	3.2
2003-2004	184.70	186.21	1.5
2004-2005	187.20	198.42	11.2

Source: 2005 Fiscal Reference Tables and Budget Documents (1997 to 2005)

Projected Versus Actual Spending (1997/98 to 2004/05)

Fiscal Year	Projected Spending $-billion	Actual Spending $-billion	Difference $-billion
1997-1998	105.80	106.86	1.1
1998-1999	105.50	109.99	4.5
1999-2000	111.20	109.58	-1.6
2000-2001	116.00	118.69	2.7
2001-2002	130.50	125.02	-5.5
2002-2003	136.60	133.59	-3.0
2003-2004	143.00	141.36	-1.6
2004-2005	147.90	162.67	14.8

Source: 2005 Fiscal Reference Tables and Budget Documents (1997 to 2005)

Projected Versus Actual Surplus (1997/98 to 2004/05)

Fiscal Year	Projected Surplus $-billion	Actual Surplus $-billion	Difference $-billion
1997-1998	-14.00	2.13	16.1
1998-1999	3.00	2.85	-0.2
1999-2000	3.00	13.15	10.2
2000-2001	4.00	20.16	16.1
2001-2002	1.60	7.02	5.4
2002-2003	1.80	6.97	5.2
2003-2004	4.10	9.08	4.9
2004-2005	3.90	1.63	-2.3

Source: 2005 Fiscal Reference Tables and Budget Documents (1997 to 2005)

Responsible Government Spending

After tabling the 2000 budget, then-finance minister Paul Martin said spending had to be contained to ensure future prosperity. He stated that program spending should rise only in conjunction with inflation and population growth. However, spending growth has outstripped this level.

Spending Growth (1997/98 to 2004/05)

Fiscal Year	Total Revenues $-billion	Program Spending $-billion	Year over Year Percentage Change	Spending Percentage Change since 1997/98	Cumulative Spending Increase since 1997/98 $-billion
1997-1998	152.1	106.9	n/a	n/a	n/a
1998-1999	156.1	110.0	2.9%	2.9%	3.1
1999-2000	166.1	109.6	-0.4%	2.5%	2.7
2000-2001	182.7	118.7	8.3%	11.1%	11.8
2001-2002	171.7	125.0	5.3%	17.0%	18.2
2002-2003	177.8	133.6	6.9%	25.0%	26.7
2003-2004	186.2	141.4	5.8%	32.3%	34.5
2004-2005	198.4	162.7	15.1%	52.1%	55.8

Source: Fiscal Reference Tables, September 2005

In the two years that followed balancing the books, the federal government kept program spending in check, but it has since risen rapidly. As of this year, the cumulative increase since 1997/98 is in excess of 50 per cent. When planned spending over the next five years is measured, by 2009/10 spending will increase by 82 per cent to $195-billion. If the government had budgeted more responsibly since 2001 and kept spending in line with population and inflation growth – as advocated by Mr. Martin – program spending in 2004/05 would be a more modest $131.5-billion or $31.2-billion less than it was.

Prime Minister Martin's spending increases are not sustainable over the middle and long term. Canada's population will grow by approximately 0.5 per cent in 2005 and by the same amount in 2006. In the same period, inflation will grow by 1.9 and 1.8 per cent. The federal government's spending will exceed combined population and inflation growth, which totals 2.4 per cent in 2005, and 2.3 per cent in 2006. Holding the line on spending was the key to Canada's fiscal turnaround in the late 1990s and deviating from this responsible course is not something taxpayers can afford. The fact that program spending increased by 15.1 per cent last year is wholly irresponsible and something that should worry all taxpayers.

Real Per Capita Spending Versus Actual Spending (1997/98 to 2009/10)

Fiscal Year	Population (million)	Population Growth	Inflation Average	Population/Inflation Growth	Spending tied to Population/ Inflation $-billion	Actual Spending $-billion
1997-1998	29.988	1.1%	1.60%	2.67%	106.9	106.9
1998-1999	30.248	0.9%	1.00%	1.87%	109.8	110.0
1999-2000	30.499	0.8%	1.70%	2.53%	111.8	109.6
2000-2001	30.769	0.9%	2.70%	3.59%	114.6	118.7
2001-2002	31.082	1.0%	2.50%	3.51%	118.7	125.0
2002-2003	31.362	0.9%	2.40%	3.30%	122.9	133.6
2003-2004	31.629	0.9%	2.70%	3.55%	127.0	141.4
2004-2005	31.825	0.6%	1.80%	2.42%	131.5	162.7
2005-2006	31.985	0.5%	1.90%	2.40%	134.7	161.3*
2006-2007	32.146	0.5%	1.80%	2.30%	137.9	169.5*
2007-2008	32.372	0.7%	2.20%	2.90%	141.1	177.9*
2008-2009	32.599	0.7%	2.20%	2.90%	145.2	185.8*
2009-2010	32.828	0.7%	2.20%	2.90%	149.4	194.5*

Source: CTF Calculations
* Budget Spending Projections

While expenditures were reduced in the 1990s to address Canada's fiscal crisis, the growth in the size of the federal government has been in one direction. The elimination of the budget deficit should not signal a return to a bloated federal government, especially one that is half a trillion dollars in debt.

From 1997/98 through to 2004/05, federal spending increased by $56-billion, which represents a 52 per cent spending increase over seven years. This is double the combined rate of inflation and population growth over the same period. Under Prime Minister Martin, the Liberal government's program spending (this figure excludes public debt charges) totaled $162.7-billion in 2004/05, and by 2009/10 will have increased 82 per cent since the budget was first balanced. It is official: Paul Martin's reputation as a fiscally responsible politician is out the window.

Size of Government

There is too little debate around the question of what is the right size of government. Taxpayers know intuitively that any increase in the size of government will mean more money coming directly out of their pockets. An important measure of government size is the number of employees it has on an annual basis. The following chart shows all federal government employment, by person – not in full-time-equivalents.

Growth in Federal Government Employment Since 1999

	1999	2000	2001	2002	2003	2004	2005
Total employment (thousands)	418,020	424,902	440,292	447,740	455,735	457,321	459,677
Cumulative growth of employment	n/a	1.6%	5.3%	7.1%	9.0%	9.4%	10.0%
Total wages ($-million)	19,453	22,822	22,364	24,135	24,856	25,478	25,386
Average wage	$43,329	$48,833	$47,145	$49,398	$50,359	51,718	51,970
Cumulative growth in average wages	n/a	12.7%	8.8%	14.0%	16.2%	19.4%	20.0%

Source: Statistics Canada, Public Sector Employment 2005

After reaching a low mark for government employment in 1999, Ottawa began to increase the number of federal employees from 2000 onwards. As of 2005, federal government employment was 10 per cent over 1999 levels. Over the same period, growing government employment has also increased the cost of the payroll by $5.9-billion. And it is not simply a case of too many employees working in government. On average, government employees earn 20 per cent more than the average Canadian. Since 1999, government employees have enjoyed more than a 13 per cent increase in their average income. Indeed, average government employees are part of the 27 per cent of Canadian taxpayers who earn more than $50,000 per year.

The federal government should be commended for a recent study by the Treasury Board that recommended ending the duplication of some 41,000 jobs. This could produce annual savings of $4-billion. Treasury Board President Reg Alcock has confirmed a civil-service overhaul will go ahead and is seeking ways to make government more efficient and a better value for taxpayers.

THE FEDERAL GOVERNMENT SHOULD LIMIT EXPENDITURE GROWTH TO A MAXIMUM ANNUAL AMOUNT OF INFLATION AND POPULATION GROWTH.

Eliminating the National Debt

The federal government should be commended for paying down $63-billion of Canada's national debt over the last eight years. However, it must go further by shifting from its record of debt elimination by accident to debt elimination by design. With the national debt at the end of fiscal year 2004/05 standing at $499.8-billion, and with public debt charges costing $35-billion this year, Canada cannot afford to not take debt repayment seriously. The Prime Minister has set a goal of reducing our debt-to-GDP ratio to 25 per cent within ten years, and this type of dedicated approach to reducing Canada's debt should be applauded – and accelerated.

Ottawa's Debt Repayment since Budget was Balanced in 1997/98

Fiscal Year	Public Debt Charges $-billion	Accumulated Deficit $-billion
1997-1998	43.1	560.7
1998-1999	43.3	557.9
1999-2000	43.4	544.7
2000-2001	43.9	524.6
2001-2002	39.7	517.5
2002-2003	37.2	510.6
2003-2004	35.8	501.5
2004-2005	34.1	499.8
2005-2006	35.1	495.5
2006-2007	35.6	492.5

1997-98 to 2004-05 from Fiscal Reference Tables, September 2005 (Department of Finance)
2005-06 to 2006-07 from 2005 Budget Documents

Ottawa should add a mandated debt repayment line-item in each budget. The CTF first advocated such a policy in 1997, one year ahead of the budget being balanced. Today, we recommend a phased-in line item worth 5 per cent of revenues, which would begin next year at 1 per cent of revenues. That would guarantee a debt repayment of $2.1-billion next year, rising to $12-billion in 2010/11. In addition to this measure, the federal government must also begin the sale and divestiture of Crown assets. These sales, along with the recent sale of Ottawa's stake in Petro-Canada, must be used entirely to reduce the federal government's debt. These assets were acquired in times of budget deficits and therefore they ought to be used to bring down the debt.

Proposed Debt Elimination Measures

($-million)	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012
Debt retirement schedule	2,101	4,408	6,852	9,512	12,419	12,948
Sale of Crown assets (debt elimination)	705	705	705	705	705	705
Net Debt Elimination:	2,806	5,113	7,557	10,217	13,124	13,653

Source: CTF calculations based on 2005 Budget revenue forecasts

With the total national debt just under $500-billion and with debt servicing the federal government's single largest expenditure, debt retirement must remain a top priority. Canada will spent $35-billion to service the federal debt this year, which amounts to a daily interest payment of $95-million.

Not only will debt elimination ensure future generations are not saddled paying for yesterday's program expenditures, debt elimination also increases available resources. By reducing the national debt by $63-billion, the federal government will save approximately $4.0-billion a year on debt interest payments it is no longer required to make.

Between 1961 and 1997, Canadian governments spent more money than they could afford, piled up budgetary deficits, and increased the national debt from $14.8-billion to $562.9-billion. Since 1961, interest and service charges on the debt has cost taxpayers almost $1-trillion. This figure will continue to increase until the debt is eliminated.

THE FEDERAL GOVERNMENT SHOULD INSTITUTE A LEGISLATED DEBT RETIREMENT SCHEDULE WITH AN ANNUAL PAYMENT OF 5 PER CENT OF TOTAL REVENUES COLLECTED.

A Flexible Daycare and Child Raising Plan

The 2005 Budget pledged $5-billion for a national daycare program, although details are sketchy and Minister of Social Development Ken Dryden has provided very little in the way of long-term costs. To embark on such an ambitious program without knowing the cost is bad public policy.

The federal government's daycare is biased towards warehousing children rather than providing families with other child rearing options. This is unfair to Canadian families who deserve to have real choice. Rather than a one-size fits all government-run system, a more flexible plan would better meet the needs of today's diverse families. Without flexibility, there is a great risk for many of the same problems Canadians have come to associate with Canada's ailing health care system: waiting lists that vary from community to community; a one-size fits all approach to raising children; and rising demand for a program politicians say is "free."

The federal government will obviously not pay the entire amount, leaving provincial governments and families to make up the difference. To have a fully subsidized daycare program – as envisioned by Minister Dryden – that covers 90 percent of children will cost approximately $40-billion each year. Clearly, there is a better approach that reflects the diversity and true needs of modern Canadian families.

Assumptions:

1. It will cost $50 per day, per child for a daycare program. If the child is in the program 260 days per year, this works out to $13,000 per child per year.
2. According to Statistics Canada, there are 3.4-million children in Canada under ten years of age. With Grade 1 starting at approximately 6 years of age, this is the maximum number of children that will use a national daycare program. If 90 per cent of eligible children use this program, it will cost $40-billion annually.
3. The current federal financial commitment of $5-billion will cover only ten percent of children under ten for one year. This is not a national program, but a lottery scheme whereby only the lucky few will secure federal funding under Ottawa's proposed child care program.

Projected Cost of Federal Government Daycare Program

To Cover Children under 10	Number of Children Under 10	Cost Per Day, Per Child	Number of Days Per Year	Annual Cost
10%	343,060	$50	260	$4.46-billion
40%	1,372,240	$50	260	$17.84-billion
90%	3,087,540	$50	260	$40.14-billion

CTF Calculations

The Canada Child Tax Benefit

The Canada Child Tax Benefit (CCTB) has a maximum payment of $1,472.08 for a one-child family. Families with income below $23,000 with three children can receive up to $4,455.42 each year. This year the CCTB will cost $9.7-billion and it does not help all families, as benefits decline for any households with an annual income in excess of $36,000. In addition to the CCTB, the federal government also has a program in place that allows low income parents to claim child care expenses. Various provincial programs also exist to help low-income families with the costs of raising children. These, and other programs aimed at low-income families should remain, but the CCTB should be replaced with a more flexible plan that recognizes the diverse needs and priorities of all families.

The CTF Daycare/Child Raising Plan: Meeting the Needs of All Families

A better approach to enhancing daycare and child raising for all Canadian families is to offer a child tax deduction. Parents are best able to decide what type of child raising arrangement best suits their family and a per child tax credit is the most flexible system. The CTF recommends that the federal government replace the Canada Child Tax Benefit with a $10,000 tax credit (or payment) per child. Such a change will mean annual tax savings of $1,600 per child and be available to all children eighteen and under – as is the case under the CCTB. This plan is universal and will provide parents with real choice because it will allow parents to choose what daycare option/child raising arrangement best suits their priorities and lifestyle. It may be having a parent or family member stay at home to care for children, or it may be using an outside daycare facility. Either way, parents and families will have options and choices, not a one-size fits all approach to daycare that benefits some and not all families.

Gross Cost of CTF Daycare/Child Raising Plan

Amount of Tax Credit Per Child	Number of Children Under 18	Annual Tax Savings Per Child	Annual Cost
$10,000	7.4 million	$1,600	$11.8-billion

CTF Calculations

By replacing the Canada Child Tax Benefit with a universal tax credit, the annual cost of this tax change is $2-billion. Any families with children under the age of 18 years and with an income too low to benefit fully from the credit will receive an equivalent payment. It is imperative that any daycare/childcare program be universal and that all parent receive the tax credit/payment regardless of income. Without such, parents have no options, and that is unacceptable.

THE CTF RECOMMENDS THAT THE FEDERAL GOVERNMENT REPLACE THE CANADA CHILD TAX BENEFIT WITH A UNIVERSAL $10,000 PER CHILD INCOME TAX CREDIT OR PAYMENT. SUCH A CHANGE WILL MEAN ANNUAL TAX SAVINGS OF $1,600 PER CHILD AND BE AVAILABLE TO ALL PARENTS WITH CHILDREN AGED EIGHTEEN AND UNDER.

Eliminating Wasteful Spending

It would take an entire study to properly highlight the waste of tax dollars within the federal government. Gold-plated pensions, extravagant perks, logrolling, and patronage immediately come to mind as do ineffective spending programs. Three government initiatives in particular must be highlighted as they are costly, provide little value, and are a waste of tax dollars. They are: corporate welfare, the infamous gun registry, and the Kyoto Protocol.

1. Corporate Welfare – Failed 19th Century Industrial Policy

Despite overwhelming international evidence pointing to the folly of industrial subsidies, the federal government continues its economically destructive policy of picking market winners and losers through a variety of direct and indirect industrial assistance and regional development schemes, principally under the auspices of Industry Canada and Human Resources Development Canada.

In six successive reports analyzing over $50-billion in government assistance to industry – using data obtained through *Access to Information* – the CTF has found:

- Some $2.15-billion distributed through the Defence Industry Productivity Program was distributed in grants, contributions and loans between 1970 and 1995 with less than 20 per cent repaid;

- Almost 50 per cent of $11.2-billion in assistance distributed by Industry Canada from 1982 to 1997 was earmarked for 75 of Canada's largest and most profitable corporations;

- The Atlantic Canada Opportunities Agency (ACOA) wrote off an astounding 34 per cent ($200-million) of its $591-million loan portfolio between 1990 and 1999;

- Western Economic Diversification recouped a paltry 3.4 per cent of its $134-million conditionally repayable loan portfolio between 1987 and 2000; and

- Technology Partnerships Canada (TPC) – the government's flagship corporate welfare program – has collected less than 3 per cent of $1.6-billion in loan agreements signed since 1996. TPC officials have forecast their best case repayment scenario as less than one-third ($2.13-billion) of a planned $6.4-billion in loans through to the year 2020.

The CTF has consistently maintained that lowering personal and business taxation levels and fostering an internationally competitive regulatory framework – facilitated by adopting an aggressive anti-subsidy stance at the World Trade Organization and other multilateral organizations – are two of the key elements needed to promote economic growth and raising the living standards of citizens.

The CTF has long opposed business subsidies and corporate welfare, as they are inherently unfair and make for bad public policy. By phasing out such programs over five years, spending reductions of $4-billion could be realized.

2. National Firearms Registry

It is time to officially de-register the gun registry. It is not just that the government initially told Canadians that it would cost $2-million, which quickly ballooned to $85-million and is on track to hit $2-billion (and counting). The registry should be shelved because it is a bureaucratic nightmare that is emptying the pockets of Canadian taxpayers. Perhaps the most compelling reason to scrap the gun registry is that it is ineffective.

Criminals obviously do not register their firearms. In fact, when the cost of the program had officially reached $1-billion, it was estimated that barely half the firearms in Canada were "registered" with the federal database. Moreover, gun crime is on the rise, which is another bit of evidence highlighting that the program is useless. Such wasteful spending – even a feel good one – shortchanges all taxpayers.

3. Kyoto Protocol

The Kyoto Protocol should be rejected out-of-hand on economic grounds. The international agreement commits Canada to reduce average carbon dioxide emissions to 6% below 1990 levels by 2010. Because the country's output of greenhouse gases has increased by 30% since 1990, crippling cuts in energy output are necessary to comply with the international agreement.

Ottawa's Industry Minister was forced to admit in April that Canada will need to buy emission credits from developing countries. Many economists and environmentalists regard this as purchasing "hot air" since nations that sell surplus gases need not reduce their current CO2 output levels.

The result is Canada will continue to pump out emissions and claim victory while it pays foreign governments for credits. We will pay money to Russia to heat our homes in the winter.

This is absurd public policy and a shocking misuse of taxpayers money, which could be better used at home.

This summer the government issued a regulatory notice for the imposition of a carbon tax. Fines will start at $200 per excess tonne of CO2 emissions. This policy change signals Ottawa's intention to penalize companies that engage in routine economic activities. The tax will negatively affect all Canadians.

The more Canadians learn about Kyoto – its foolish assumptions and skyrocketing costs – the less they like it. The 2005 budget stated that Kyoto would cost some $5-billion. When the climate plan was released two months later the cost had jumped to $10-billion. What does Ottawa have to offer us for this expense? A costly implementation plan that even environmental groups say is unworkable.

And recall that Kyoto was sold to the public as being economically painless. This is nonsense. Hot air purchases, more taxes and higher energy prices will result in household income dropping, in real terms, by $3,000 – annually – by 2010 to meet Ottawa’s Kyoto targets. The Canadian Manufacturers and Exporters Association estimates that Kyoto will cost them over $40-billion and could result in up to 500,000 job losses.

It is no wonder the United States and Australia refused to ratify the treaty, and others, like Japan, say targets will not be met. More and more nations are rejecting the so-called Kyoto consensus. British Prime Minister Tony Blair, did so recently. The sooner Canada does the same, the better.

THE FEDERAL GOVERNMENT SHOULD END ALL CORPORATE WELFARE AND REGIONAL DEVELOPMENT PROGRAMS, SCRAP THE FEDERAL GUN REGISTRY, AND NOT IMPLEMENT THE KYOTO PROTOCOL.

SECTION III: Narrowing the Accountability and Transparency Gap

Foundations

To taxpayers, it is disconcerting that billions of tax dollars are completely off limits to review by Canada's auditor-general, yet this is precisely the case with Ottawa's policy of issuing cheques to foundations, which operate at-arms-length from government. In 1997, the government began transferring public money to foundations, also known as not-for-profit corporations. By the spring of 2004 over $9-billion in grants has been paid to foundations.

The Office of the Auditor General of Canada noted the lack of accountability in the federal government foundation program in its 2005 Report: "In the Auditor General's observations on the government's summary financial statements in the Public Accounts of Canada, we have raised concerns about the governance and the accountability of and accounting for government transfers to foundations. These are up-front payments made many years in advance of need. Our performance audits in 1999 and 2002 found that accountability to Parliament was placed unnecessarily at risk – the government had failed to meet the essential requirements for accountability to Parliament, namely credible reporting of results, effective ministerial oversight, and adequate provision for external audit."

Without genuine reform to how foundations report the use of tax money, transparency and accountability will continue to lack in Canada. The auditor-general as well as Members of Parliament should have the power to review the billions of dollars tucked away in foundations so taxpayers can assess the value of these programs beyond the spin of the federal government.

The Ballooning Democratic Deficit

As a Liberal Party leadership candidate, Paul Martin coined the phrase "democratic deficit." Mr. Martin pledged to fix and bring Canada's democracy and parliamentary institutions into the 21st Century. Not only has Martin reverted back to old-style patronage and cronyism, he no longer bothers to even pretend his government is seriously interested in parliamentary reform. Alberta, meanwhile, has led the way in terms of Senate reform opting to hold elections for prospective Senators on several occasions. New Brunswick has also indicated it is ready to elect its Senators if Ottawa indicates it will abide by Senate election. In the fall of 2004, Alberta voters elected four Senators-in-waiting. Yet after tens of thousands of voters cast ballots for Alberta Senators, Mr. Martin vetoed their right to decide who will represent them. It is absurd that of Canada's 413 federal lawmakers – 105 Senate seats and 308 seats in the House of Commons – fully 25 per cent are appointed and not elected.

Mr. Martin's promise of eliminating the democratic deficit is in tatters. The promise of more free votes died when the Liberal backbench was whipped to support more funding for the gun registry last year. The process to vet Supreme Court judges is a farce as nominees do not appear before MPs or face an up-or-down vote in the House of Commons. And the government has broken its guarantee to make major appointments to heads of Crown corporations and other agencies subject to parliamentary review. Most laughable is Mr. Martin's decision to name opposition Senators in a party – the Progressive Conservatives – that no longer exists. Incredibly, the government believes it has the gift to choose, via appointment, the people charged with opposing its legislation.

Without genuine parliamentary reform, Canadians will grow even more cynical about the political process and the numbers of people who vote in federal elections will continue to fall. This should concern all politicians, citizens, and taxpayers. It is time to bring Canada's democracy and parliamentary institutions in to the 21st Century.

Access to Government Information

The dimming light of access to government information is a direct threat to Canada's free and open democratic society. Canada's Access to Information laws are ripe for overhaul, as there have been no changes in twenty years. While some protection of privacy is needed, the pendulum has swung so far in the direction of broad exemptions the act has become all but impotent. There are at least 209 federal entities that are either completely or partially exempted from Access to Information. These range from federal government departments to Crown corporations and foundations. These gaping holes in our right to ask questions and receive answers about the federal government need to be filled. Of course, the most obvious solution is to simply shut down many of these agencies. For instance, closing corporate welfare agencies would eliminate many of the problems surrounding third party confidentiality. In the meantime, amending the Access to Information Act to include Crown corporations would be a good start. It is time to stop denying citizen's access to their government and let some light in.

Conclusion: Long Term Fiscal Prospects

The federal government is committing the biggest of follies – sacrificing the long term economic interests of Canadians to overcome short term problems. Public policy making in Canada has become deeply political without, it seems, a second thought being given to the potential long term consequences. Rampant spending, high taxes, and too little focus on debt repayment, means that future generations will inherit the fiscal problems not being addressed today. A government with only present-day survival on its mind is the worst form of representation. If maintaining political power is the driving force behind policy-making, it is safe to say public policy will reflect only the narrow interests of a few – at the expense of the many.

The recommendations contained in this report are achievable and focus on ensuring Canada will be economically stronger tomorrow than it is today. Lowering income taxes, controlling spending and paying down debt will ensure Canada remains internationally competitive, and able to thrive in the global economy for decades to come. In the global economy, job and wealth creation will depend on how competitive a country is vis-à-vis other nations. Simply put, a country that fails to plan for the long term will be left behind.

Canada is positioned to be a strong player in the 21st century global economy provided the right decisions are made today. To date, our minority Parliament refuses to acknowledge the growth-impeding nature of high taxes, and rampant spending. As other countries surge forward, Canada risks lagging behind its competitors.

To ensure success, Canada needs to lower taxes, provide efficient and responsible government, and enshrine accountability and transparency. The CTF recommendations aim to ensure Canada will be at the head of the economic pack instead of in the middle of it or lagging behind it. It is time that government worked for all Canadians and not just itself. Voters, citizens, and taxpayers deserve no less.

Budgeting the CTF Pre-Budget Initiatives – Tax Relief Proposals

($-billion)	**2006/07**	**2007/08**	**2008/09**	**2009/10**
Income Tax Cuts (excluding BPE)	1.8	3.6	5.4	5.4
Increasing Personal Exemptions	4.3	11.4	25.6	27.9
EI Reductions	1.3	1.4	1.1	0.8
Daycare & Child Raising Plan	2.0	2.1	2.2	2.3
Gas Tax Reductions	2.0	2.0	2.0	2.0
Dividend Tax Reductions	2.0	2.5	3.0	3.0
Total	13.4	23.0	39.3	41.4