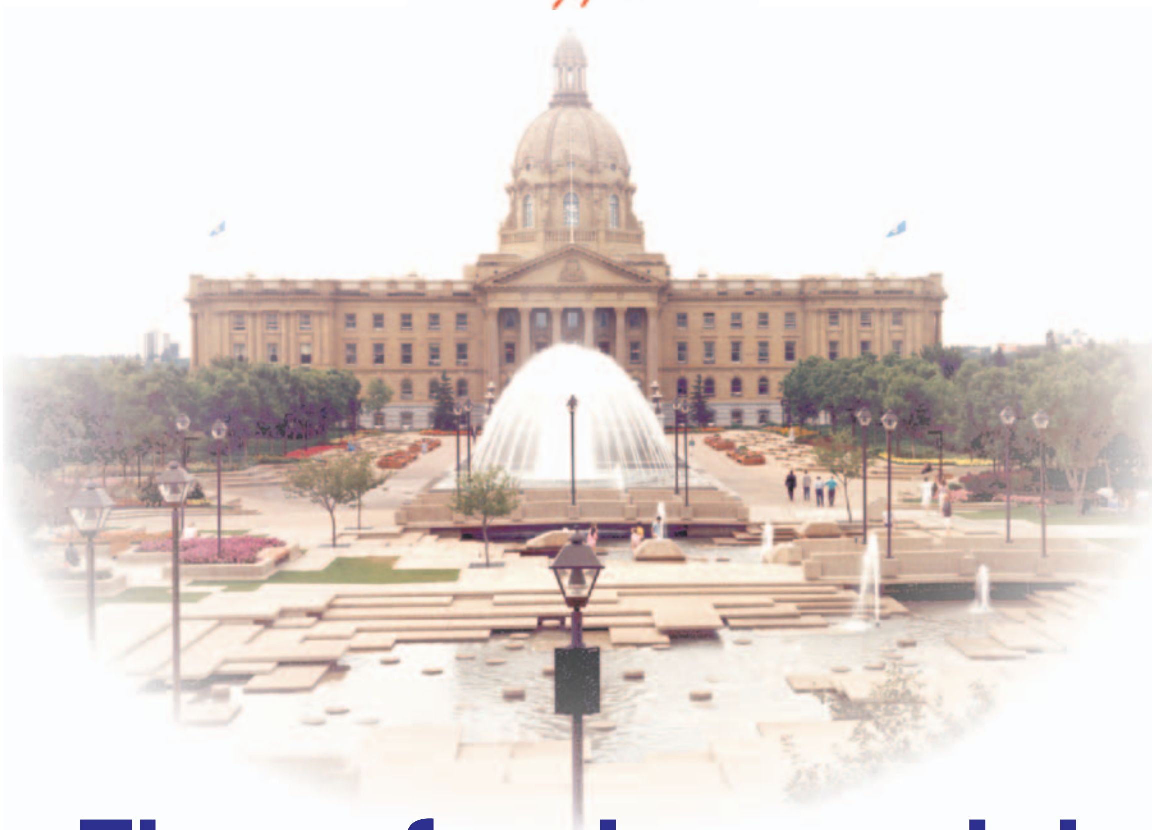
CANADIAN Taxpayers FEDERATION Fighting for taxpayers



Time for tax cuts!

Submission regarding Budget 2004-05

Presented to the Honourable Pat Nelson, Minister of Finance

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About the Canadian Taxpayers Federation

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

The CTF's three-fold mandate is:

1. To act as a watchdog on government spending and to inform taxpayers of governments' impact on their economic well-being;

2. To promote responsible fiscal and democratic reforms, and to advocate the common interest of taxpayers; and

3. To mobilize taxpayers to exercise their democratic responsibilities.

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

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

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

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

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Executive Summary

Alberta's spending on government programs is up 71% in just seven years, while Alberta's population grew by only 14% during the same period. Public sector workers – including doctors, MLAs, nurses and teachers – have received double-digit wage increases, which are far greater than wage increases received by workers in the private sector. In contrast to large public sector wage increases which help only one group of Albertans, tax cuts would help <u>all</u> Albertans, including doctors, MLAs, nurses and teachers.

It's time for tax cuts.

Lower taxes create jobs by increasing consumer purchasing power and by encouraging investment, both foreign and domestic. Lower taxes encourage productive and talented people to move to Alberta. Lower taxes help Alberta to maintain its advantage in a global economy, where labour and capital are highly mobile and can re-locate to other jurisdictions with relative ease.

In addition to economic benefits, lower taxes enhance the dignity and self-respect of every individual. Rather than politicians and bureaucrats making decisions about other peoples' money, lower tax rates empower each individual to decide how his or her income will be allocated between providing for one's family, saving for the future, investing in opportunity, and giving to worthwhile charities. The quality of life is enhanced when people have more money to support their own families, churches and communities.

Budget 2004-05 presents the Alberta Government with a new opportunity to reverse the tax increases which were imposed in 2002, and to respond to the wishes of Albertans as expressed in province-wide "Talk it up, talk it out" and "It's your money" surveys.

The Canadian Taxpayers Federation recommends the following for Budget 2004-05:

1. Abolish the health care premium tax. A family does not need to be "low-income" to suffer hardship from having to pay an additional $1,056 per year in health care premium taxes, all of which go into General Revenues. Families with children who are getting by on $40,000 or $50,000 per year also find that an additional tax bill of $1,056 takes a significant bite out of the family budget. Further, the health care premium tax is totally unnecessary for a government which already receives $24.4 billion from *other* sources. Revenue from the health care premium tax ($923 million) makes up less than 4% of total provincial revenues ($25,338 million).

2. Abolish the 3% tax on car insurance. Eliminating this 3% tax would be a small but positive step towards reducing the price of car insurance for Albertans – immediately and permanently.

3. Limit growth in public sector salaries. The major cause of Alberta's 71% spending increase has been the double-digit salary increases awarded to doctors, nurses, MLAs, teachers, provincial government employees, and others in the public sector. According to Statistics Canada, **average public sector salaries in Alberta rose by 45% in the six years from 1996 to 2002**. This is far more than public sector salary increases of 16% (Saskatchewan), 14% (Ontario), 12% (Manitoba), and 6% (B.C.) during the same period. See Appendix B.

4. Freeze program spending at $20 billion for Budget 2004-05. This would still amount to a 57% spending increase over eight years, as program spending was $12.7 billion in 1996. A spending freeze is necessary in order to give Albertans a tax cut, reversing the tax increases imposed in March of 2002. A spending freeze is also necessary as a safeguard against a sudden drop in oil and gas prices, or a general

economic downturn which deprives the government of anticipated revenues, or unexpected disasters like forest fires and BSE.

5. Protect taxpayers with legislation. The *Alberta Taxpayer Protection Act* requires that a referendum be held prior to the introduction of a general provincial sales tax. All other new taxes and tax increases can be imposed at any time for any reason – even when this violates an unequivocal election promise.

6. Control spending with legislation. A 71% program spending increase in just seven years, together with tax increases in 2002, underscore the need for spending control legislation. Alberta's current legislation, and Alberta's new Sustainability Fund, do ***not*** protect taxpayers from tax increases or from their cause, which is massive program spending increases.

7. Reform the health care system. Health care spending has **more than doubled** in the past eight years, from $3.747 billion in 1995-96 to more than $7.5 billion in 2003-04. The Canadian Taxpayers Federation supports policy changes towards more accountability and more choice in the health care system, as set out in "*The Patient, The Condition, The Treatment,*" available from our web site at www.taxpayer.com/studies/federal/CTFHealthReport.pdf.

8. Don't go back into debt. The greatest achievement of Ralph Klein's ten years as Premier is having reduced Alberta's debt from $20.3 billion down to less than $5 billion. Premier Klein's legacy will be destroyed – slowly but surely – by the decision in 2002 to allow government ministries to borrow money for capital projects.

9. Penalize ministers who fail to meet their budgets. British Columbia's *Balanced Budget and Ministerial Accountability Act* promotes accountability by penalizing cabinet ministers if their ministries go over the spending limit set out in the budget. Alberta should pass similar legislation.

10. Reduce the size of cabinet back to 17 members. In 1992, Premier Klein launched a revolution by reducing cabinet from 26 down to 17 members. This small cabinet succeeded in reducing the size of government by 30% in real terms (adjusting for inflation and population growth). It is no coincidence that the 71% program spending increase since 1996 took place at the same time that cabinet has grown back up to 24 members.

1. Abolish the health care premium tax

The Alberta Government receives about $8,000 in revenues for every man, woman and child in Alberta. No other Canadian province comes close to taking in as much revenue.

And yet, though the Alberta government receives $25.3 billion in revenues, an Alberta family with children, earning only $34,250 per year, must pay $1,056 in health care premium taxes each year, in addition to other provincial and federal taxes.

A couple without children, earning only $28,240 per year, must also pay $1,056 in health care premium taxes – in addition to federal and provincial income tax.

An individual earning just $16,000 must pay $528 in health care premium taxes. Alberta has the fairest and most family-friendly personal income tax regime in Canada, yet some low-income Albertans pay more health care premium tax than personal income tax.

One does not need to be "low-income" to suffer hardship from having to pay the health care premium tax. Families with children who are getting by on $40,000 or $50,000 per year also find that an additional tax bill of $1,056 takes a significant bite out of the family budget.

The health care premium tax is an obstacle to health care reform. That's because this tax sends the message that our health care system costs only $44 per month, or $88 per month for families. In fact, the health care system costs **more than eight times** as much. Further, the health care premium tax does not pay for health care any more (or less) than the hotel room tax, or any other provincial tax. In order for health care reform to succeed, the public at large needs to understand how expensive our government-run, government-financed, government-evaluated system really is. Albertans need to know that health care consumes more than one third of provincial tax revenues – not $44 or $88 per month. The health care premium tax stands in the way of public understanding.

Further, the health care premium tax is totally unnecessary for a government which already receives $24.4 billion from *other* sources. Revenue from the health care premium tax ($923 million) makes up less than 4% of total provincial revenues ($25,338 million).

And, unlike Alberta's personal income tax, the health care premium tax costs $13 million per year to collect. That's enough money to purchase four MRI machines.

2003 CTF supporter survey, response of CTF supporters in Alberta:

The Alberta government spends $13 million per year to collect health care premiums. This money ($1,056 per family or $528 per individual) goes into General Revenue like all provincial taxes, and is not specifically targeted at health care. Should this tax (premium) be abolished?

Yes	64%
No	21%
Undecided/no response	15%

Contrary to what some have asserted, increasing the health care premium tax was *not* recommended in the Mazankowski Report on health care reform. In fact, the Mazankowski Report states at page 54 that increasing the health care premium tax "would have no effect on moderating demand for health care services" and should not be done unless there would be "corresponding benefits to Albertans including more choice, better access, and more control over how they spend their health care investment."

In summary, the health care premium tax is deceptive, punitive, expensive to collect, harmful to health care reform, and totally unnecessary. This regressive tax should be abolished as soon as possible.

2. Abolish the 3% insurance tax

The high cost of car insurance has been, and continues to be, an issue of great concern to many Albertans. As long as the Alberta Government continues to impose a 3% tax on auto insurance, the government is part of the problem rather than part of the solution. Eliminating this 3% tax would be a small but positive step towards reducing the price of car insurance for Albertans – immediately and permanently.

3. Limit growth in public sector salaries

Alberta's spending on government programs has risen 71% in seven years, from $12.7 billion in 1996-97 to $21.7 billion in 2003-04 (Third Quarter Fiscal Update). In contrast, Alberta's population grew 14% during this same period.

In contrast to Alberta's 71% program spending increase, other provinces have increased their spending since 1996 by 56% (Manitoba), 39% (Saskatchewan), 31% (Ontario) and 24% (B.C.). See Appendix A.

If Alberta had followed the example of Manitoba and increased program spending by "only" 56%, there would be room for **a tax cut of $1.2 billion** or more, effective immediately in this 2003-04 year.

The major cause of Alberta's 71% spending increase has been the double-digit salary increases awarded to doctors, nurses, MLAs, teachers, provincial government employees, and others in the public sector.

According to Statistics Canada, **average public sector salaries in Alberta rose by 45% in the six years from 1996 to 2002**. This is far more than public sector salary increases of 16% (Saskatchewan), 14% (Ontario), 12% (Manitoba), and 6% (B.C.) during the same period. By way of comparison, Canada's consumer price index rose by 11.78% from 1996 to 2002. See Appendix B.

Public sector wage increases help only one group of Albertans, and they do so at the expense of Albertans working in the private sector. In contrast, tax cuts help *all* Albertans, including public sector workers. Therefore tax cuts are preferable to public sector wage increases, because tax cuts have the practical effect of giving *everyone* a pay increase.

Currently, the Alberta government does not collect information to compare public sector wage increases with private sector wage increases.

The Alberta government should use existing resources to research and monitor wages and wage increases in Alberta's private sector, and make this information readily available on its web site. Public sector salary increases can then be kept on par with gains made by workers in the private sector.

As an interim measure, until the Alberta government starts to monitor wages and wage increases in the private sector, public sector salary increases should be limited to the increase in the average weekly earnings index as reported by Statistics Canada.

2003 CTF supporter survey, response of CTF supporters in Alberta:

Should the salaries of nurses, teachers, MLAs, provincial government employees and other public sector workers be limited to the level of increases received by workers in the private sector?

Yes	89%
No	2%
Undecided/no response	9%

4. Freeze spending at $20 billion for Budget 2004-05

Alberta's spending on government programs is unsustainable. A drop in the price of oil or gas or both – which happened as recently as 1998 – would put Alberta into a deficit situation or require more tax increases to keep the budget balanced.

Limiting public sector salary increases, along with eliminating lower-priority spending, will enable a spending freeze for Budget 2004-05. There is no reason for program spending in Budget 2004-05 to exceed $20 billion.

Bear in mind that program spending of $20 billion would still amount to a 57% spending increase over eight years, as program spending was $12.7 billion in 1996. A program spending increase of 57% is far greater than Alberta's population growth and inflation from 1996 to 2004.

A spending freeze is necessary in order to give Albertans a tax cut, reversing the tax increases imposed in March of 2002.

A spending freeze is also necessary as a safeguard against a sudden drop in oil and gas prices, or a general economic downturn which deprives the government of anticipated revenues, or unexpected disasters like forest fires and BSE.

A spending freeze will enable the government to honour the fiscal preferences of Albertans as expressed in province-wide surveys.

In response to the Alberta government's "Talk it up, Talk it out" survey in 1998, Albertans attributed the highest importance to paying down debt (74.8%), followed by reducing taxes (61.4%). Increasing priority spending ranked third (56.1%), followed by increasing savings in the Heritage Fund (19.2%).

In response to the Alberta government's "It's Your Money" survey in 2000, Albertans attributed the highest importance to tax cuts (73%), with more spending on programs a distant second (44%). Regarding the use of one-time revenues, spending ranked *third* behind one-time tax rebates and savings.

It's time for the government to stop reading these survey results upside-down.

2003 CTF supporter survey, response of CTF supporters in Alberta:

Alberta spends more per person on government programs than other provinces. In 1996, Alberta's spending was $12.7 billion. It is now $20.3 billion - an increase of $60% while the population grew only 14%. Do you support the call for a spending freeze along with a provincial tax cut of $1 billion for 2004?

Yes	84%
No	6%
Undecided/no response	10%

5. Protect taxpayers with legislation

The tax increases imposed on Albertans in 2002 would not have succeeded if Alberta had effective taxpayer protection legislation.

The *Alberta Taxpayer Protection Act* requires that a referendum be held prior to the introduction of a general provincial sales tax. All other new taxes and tax increases can be imposed at any time for any reason – even when this violates an unequivocal election promise.

In contrast to Alberta's legislation, legislation in Manitoba, Ontario, Yukon, numerous U.S. states, and other jurisdictions requires politicians to put tax increases and new taxes to voters in a referendum.

In Switzerland, a tax increase must be put to a referendum if 50,000 voters sign a petition requesting a referendum. Swiss taxpayers have sometimes voted for tax increases – but only after politicians made a convincing case for their necessity. Taxpayer protection legislation in the state of Washington is part of its spending control legislation; voter approval is required for any tax increases or new taxes. This applies to expanding the base for a tax, increasing the rate of a tax, or introducing a new tax.

Currently the onus is on Albertans to justify to politicians why we should be able to keep our own hard-earned money. Taxpayer protection legislation would shift the onus to special interest groups and politicians to justify why they want to take more money away from Albertans.

As taxpayers are the people who foot the bills, they should be consulted on any and all tax increases. The *Alberta Taxpayer Protection Act* should be amended to require a referendum on all new taxes and tax increases.

6. Control spending with legislation

A 71% program spending increase in just seven years, together with tax increases in 2002, underscore the need for spending control legislation. Alberta's current legislation, and Alberta's new Sustainability Fund, do ***not*** protect taxpayers from tax increases or from their cause, which is massive program spending increases.

A 2003 Fraser Institute study called "*Tax and Expenditure Limitations – The Next Step in Fiscal Discipline*" explains the difference between balanced budget laws and laws which actually control taxes and spending.

Like seven other provinces, Alberta has balanced budget legislation to stop the government from spending more money than what it collects in taxes. But Alberta does not have a law to limit growth in spending and taxes.

The *Tax and Expenditure Limitations* study (www.fraserinstitute.ca) looks at the experience of 27 American states which have laws that specifically target growth in government spending and taxes. Unlike studies which have examined state budgets for only two or three years, this study considers taxation and spending over longer time periods, and concludes they are effective in constraining the growth of government and reducing taxes.

Montana, Oregon, New Jersey, South Carolina, Tennessee, Texas, Louisiana, Hawaii, Massachusetts and Florida limit growth in government spending to the same rate as the income growth of taxpayers. What could be more fair? If the income earned by taxpayers in a given year rises by 4%, why should the government's budget increase by more than 4%?

Arizona, Idaho, Michigan, Missouri and North Carolina limit their governments' spending to a set percentage of personal income earned by the state's residents.

Alaska, Colorado, Nevada, Washington and Utah limit growth in government spending to the state's population growth and inflation. This law has worked wonders for taxpayers in the state of Washington. From 1980 to 1995, Washington's population grew an average of 1.2% per year while inflation averaged 4.5% per year, but government spending rose by 8% per year. The pre-1995 trend was towards bigger government and higher taxes. Since 1995, government spending has increased at a steady, reliable pace to keep pace with Washington's inflation and population growth, but taxes have come down – permanently.

Most of these spending control laws include a requirement that any tax increases or new taxes be put to voters in a referendum for their approval. This doesn't make tax increases impossible, but it does force a healthy debate to take place. It puts the onus on politicians to explain and justify why they should get a larger share of taxpayers' earnings. Without a referendum requirement, the onus is on taxpayers to explain and justify why they should be able to hang on to their own earnings.

Unfortunately, Alberta does not have effective taxpayer protection legislation. Politicians can raise any tax at any time for any reason, without the approval in a referendum from those who pay the bills. This is what happened in 2002, with a $641 million tax increase which still has not been reversed.

Laws which limit government spending and taxation force politicians and bureaucrats to choose priorities, just like every family does with its budget. Sure, we would all like more money to buy better and nicer things, but we live within our means. Every day we say "no" to lower priorities. Shouldn't politicians be required to do likewise? It's time for Alberta to take the next step in fiscal discipline.

7. Reform the health care system

Health care spending has **more than doubled** in the past eight years. In 1995-96 it was $3.747 billion. It now exceeds $7.5 billion in 2003-04.

The Mazankowski Report warns that unless the health care system itself is restructured, health care will consume 50% of Alberta's budget by 2012, or as early as 2008 according to some estimates.

This doubling of the health care budget in eight short years is a natural consequence of a government-managed, government-financed, government-regulated and government-provided health care system. Alberta's Soviet-style health care system contains no personal financial incentives for doctors or for patients to conserve resources or save money.

Ever-rising health care costs, borne by taxpayers, are the expected consequence of a system which has little if any accountability. As long as government continues to be in a conflict of interest as the primary health care funder, the primary health care provider, and the sole health care evaluator, health care spending will grow to take up more and more of Alberta's budget.

The Canadian Taxpayers Federation supports policy changes towards more accountability and more choice in the health care system. A study called "*The Patient, The Condition, The Treatment,*" is available from our web site at www.taxpayer.com/studies/federal/CTFHealthReport.pdf.

8. Don't go back into debt

The greatest achievement of Ralph Klein's ten years as Premier is having reduced Alberta's debt from $20.3 billion down to less than $5 billion. Debt servicing costs, which once consumed 12% of the provincial budget, are now less than 2% of provincial spending. Taxpayers benefit tremendously from having 98 cents of each tax dollar available for government programs.

Premier Klein's legacy will be destroyed – slowly but surely – by the decision in 2002 to allow government ministries to borrow money for capital projects.

In the same way that politicians throughout Canada have often used "health care" to justify tax increases, "infrastructure" is a popular slogan for selling the idea of going into debt. For example, from 1991 to 2001 the NDP government of B.C. often used the popular cause of "infrastructure" to justify the growth of debt. As a result, taxpayers in B.C. lose 8% of their provincial tax dollars to service a $40 billion debt, of which $23.5 billion was incurred for the sacred cause of "capital spending."

This current fiscal year of 2003-04 is the fifth consecutive year that the Alberta government is receiving more than $20 billion in revenues. This government has **plenty** of money available for transportation and infrastructure, if spending priorities are set and adhered to. Going back into debt, whether for "infrastructure" or any other cause, is simply not necessary. Going back into debt will push Albertans back towards the position they were in before: losing 12 cents of every tax dollar to debt servicing costs.

Rather than allowing government ministries to borrow money for infrastructure, the government should establish its capital budget in such a way that this capital budget does not have to be spent in its entirety during any particular fiscal year. Strict balanced budget legislation can be reconciled with a flexible capital budget. Each time that government revenues are put into the capital budget, that deposit should be considered as a government expenditure in the fiscal year in which that deposit took place. But once funds are placed in the capital budget, that money does not have to be spent within that fiscal year. The money can be spent immediately, or in six months, or in 24 months – as infrastructure needs may dictate. In this way, a flexible capital budget can co-exist harmoniously alongside a policy requiring the budget to be balanced annually.

9. Penalize ministers who fail to meet their budgets

British Columbia's *Balanced Budget and Ministerial Accountability Act* promotes accountability by penalizing cabinet ministers if their ministries go over the spending limit set out in the budget. This *Act* imposes a 20% reduction on the $39,000 cabinet portion of a minister's salary ($45,000 for the Premier). The MLA portion of a minister's salary is not affected by this legislation. One half of this amount (20% of $39,000 or $45,000) is restored if the government's bottom line result meets or beats the deficit target for the year. The other half is restored to individual ministers if the actual spending in their ministry (including other appropriations under their responsibility) is less than or equal to the target set out in the main *Estimates* for that year.

Alberta should pass similar legislation.

10. Reduce the size of cabinet

In 1992, Premier Klein launched a revolution by reducing cabinet from 26 down to 17 members. This small cabinet succeeded in reducing the size of government by 30% in real terms (adjusting for inflation and population growth). This accomplishment has not been achieved or even rivaled by any other government in Canada, federally or provincially.

It is no coincidence that the 71% program spending increase since 1996 took place at the same time that cabinet has grown back up to 24 members.

The more cabinet ministers there are, the more pressure there is to spend taxpayers' money. This is because every cabinet minister, even if personally committed to a philosophy of smaller government, acts as a spending advocate for her/his ministry. A large cabinet is both a symptom and a cause of large government, which is bad news for taxpayers.

Therefore, cabinet should be reduced back to 17 members, as it was in 1993.