2005/06 Prebudget Submission

Empowering taxpayers through smaller government

Presented to the Hounourable
Shirley McClellan, Minister of Finance
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The Canadian Taxpayers Federation (CTF) is a federally incorporated, non-profit and non-partisan, advocacy organization dedicated to lower taxes, less waste and accountable government. 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. Today, the CTF has over 60,000 supporters nation-wide.

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 in Calgary dedicated to monitor, research and provide alternatives to current aboriginal policy and court decisions. Provincial offices and the Centre conduct research and advocacy activities specific to their provinces or issues in addition to acting as regional organizers of Canada-wide initiatives.

CTF offices field hundreds of media interviews each month, hold press conferences and issue regular news releases, commentaries and publications to advocate the common interest of taxpayers. The CTF's flagship publication, *The Taxpayer* magazine, is published six times a year. An issues and action update called *TaxAction* is produced each month. 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 affect 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. Contributions to the CTF are not tax deductible.

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Executive Summary

In praise of Premier Klein's past accomplishments

The Canadian Taxpayers Federation (CTF) recognizes that Alberta's economic success is no accident. In years past, the CTF has praised Premier Klein's policies – loudly, publicly and unequivocally.

During his first term from 1993 to 1997, Premier Klein reduced spending on government programs by 30% in real terms, taking Alberta's population growth and inflation into account. Balanced budgets came about thanks to balanced budget legislation, and Alberta's debt freedom has come about through debt repayment legislation.

Premier Klein's government – along with previous Tory and Social Credit governments – can also take credit for pro-business and pro-development policies which allow Albertans to benefit from our natural resources. Albertans aren't "lucky," but have chosen to develop the gifts which the earth has given us. Saskatchewan, B.C. and numerous jurisdictions throughout the world have also been blessed with abundant natural resources. But people don't prosper when anti-business regimes implement policies which repel investment, deter business, and prevent job creation.

School boards can't raise property taxes without taxpayers' consent in a referendum. This puts the onus on politicians to explain and justify why they think a tax increase is necessary. Without this taxpayer protection legislation, the onus is on taxpayers to explain and justify why they should be able to keep their own earnings. Taxpayer protection legislation doesn't exist yet at the federal, provincial and municipal levels, but having it for school boards is a good start.

A solid foundation has been laid. It's time to build on that foundation with more taxpayer-friendly policies.

Recommendation #1: Protect taxpayers with legislation

The *Alberta Taxpayer Protection Act* requires that a referendum be held only prior to the introduction of a general provincial sales tax, but not for other new taxes or for tax increases. Amending this law to require a referendum on all new taxes and tax increases would fulfill a long-standing promise of Premier Klein, and would accord with the wishes of 83% of Albertans.

Recommendation #2: Control spending with legislation

A 90% program spending increase in just eight years, together with $541 million in tax increases in 2002, underscore the need for Alberta to have spending control legislation. On a per-person basis, Alberta's spending on government programs is the highest in Canada. Further, there is a dangerous gap of $5.2 billion between current program spending ($24.2 billion) and revenues from sources other than oil and gas ($19 billion). A 2003 Fraser Institute study called "*Tax and Expenditure Limitations – The Next Step in Fiscal Discipline*" (available at www.fraserinstitute.ca) concludes that tax and expenditure limitations are effective in constraining the growth of government and reducing taxes. Alberta needs a law to limit growth in spending and taxes.

Recommendation #3: Reduce Albertans' tax burden by $1.5 billion

Of all the governments in Canada, Alberta's can most easily reduce taxes, because it receives the most money per person. Reducing taxes will enable the Alberta government to honour the fiscal preferences of Albertans as expressed in province-wide surveys in 1998 and 2000. Lower taxes will enhance the dignity and self-respect of every individual, and raise the standard of living of all Albertans. With a modest reduction in program spending, the Alberta government can easily abolish the health care premium tax ($893 million) and the 3% hidden sales tax on insurance ($191 million), and allow parents a per-child tax exemption ($200 million) and reduce provincial property tax by one sixth ($200 million).

Recommendation #4: Abolish the health care premium tax for all Albertans

The health care premium tax is an obstacle to health care reform, because it sends a false message that our health care system costs only $44 per month, or $88 per month for families. Further, the health care premium tax is totally unnecessary for a government which already receives $27.7 billion from *other* sources. Unlike Alberta's personal income tax, the health care premium tax costs $13 million per year to collect – enough money to purchase four MRI machines. Abolishing this tax for seniors was a small step in the right direction. But a family with children, earning $35,000 per year, must still pay $1,056 in health care premium taxes in addition to other provincial taxes. It's time to abolish this tax for all Albertans.

Recommendation #5: Abolish the 3% hidden sales tax on insurance

The Alberta Government continues to add to the cost of car insurance costs with its 3% hidden sales tax. Abolishing this tax would leave an extra $191 million per year in the pockets of Albertans, and would lower the cost of car insurance for everyone.

Recommendation #6: Empower parents with choice on child care

In addition to the existing personal and spousal exemptions, Alberta should create a per-child exemption of $6,000 per year, to lower the provincial income tax burden for parents. For each child, parents would save $600 per year in provincial income tax, keeping an extra $50 per month towards the child care of their choice. This policy would empower Alberta parents with choice, in contrast to Ottawa's plan of continuing to over-tax families and helping only those parents who choose institutional childcare over home-care. It would also be a practical way for Alberta to lead by example, as it has done with balanced budgets and debt freedom.

Recommendation #7: Use a portion of oil and gas royalties for income tax refunds

Since 1987, the Alberta government has been spending 100% of oil and gas royalties on government programs. It's time to let Albertans start enjoying these benefits directly themselves, instead of having all the decisions about this money being made on their behalf by politicians and bureaucrats, as is now the case. Royalties in excess of $3 billion per year should be given to Albertans in the form of personal income tax refunds.

Recommendation #8: Limit growth in public sector salaries

According to Statistics Canada, average public sector salaries in Alberta rose by 54% in the seven years from 1996 to 2003, in contrast to a 16% increase in Alberta's consumer price index. In contrast to large public sector wage increases, tax cuts help *all* Albertans – including public sector workers. Tax cuts have the practical effect of giving *everyone* a pay increase. Increases to public sector salaries should be limited to increases received by workers in the private sector.

Recommendation #9: End the government's monopoly on health care

Every industrialized country except Canada allows for the private financing of medically necessary health care (co-insurance, co-payments or deductibles for hospitals, general practitioners, specialists or pharmaceuticals). Even countries with very socialized systems use market mechanisms like user fees, contracting out of services, private insurers, etc. Albertans should have the right to spend their own money for more, better or faster health care, paying for what they consider to be services of higher quality from a private provider.

Recommendation #10: Don't go back into debt in the name of infrastructure

Premier Klein's legacy of debt freedom is threatened 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. Most of B.C.'s debt was incurred for the sacred cause of "capital spending. The Alberta government has enough money to pay for capital costs without borrowing.

Recommendation #11: 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 – or if the government as a whole – fails to adhere to budgetary targets. Alberta should pass similar legislation.

Recommendation #12: Reduce the size of cabinet

In December of 1992, Premier Klein reduced 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 90% program spending increase since 1996 took place during the same time that cabinet grew in size to 24 members. A large cabinet is both a symptom and a cause of large government, which is bad news for taxpayers. Cabinet should be reduced to 17.

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Introduction: In praise of Premier Klein's past accomplishments

The Canadian Taxpayers Federation (CTF) recognizes that Alberta's economic success is no accident. In years past, the CTF has often praised Premier Klein's policies – loudly, publicly and unequivocally.

When a government is serious about a goal, it passes a law to reach that goal. In this way, Alberta's balanced budget legislation ensured that budgets were balanced, and debt repayment legislation led to debt freedom. During his first term from 1993 to 1997, Premier Klein reduced spending on government programs by 30% in real terms, taking Alberta's population growth and inflation into account. Aggressive debt repayment came about through a reduction in the size of government, combined with legislation which required 75% of an unanticipated surplus to go towards debt repayment. Debt servicing costs once consumed 12% of provincial tax revenues, but they will no longer be an item in Budget 2005-06, making 100% of provincial tax revenues available for roads, bridges, policing, schools, hospitals, etc.

A reduction in debt and debt servicing costs paved the way for a 25% reduction in personal income tax in 2001. The new 10% single-rate personal income tax system, with generous personal and spousal exemptions, is the most family-friendly in Canada. No other province can claim that an individual pays *zero* income tax on the first $14,526 of earnings, or that a family pays no provincial income tax on its first $29,052 of earnings.

Corporate income taxes were reduced in 2001, 2002, 2003 and again in 2004. The general rate has been cut from 15.5% to 11.5% and the small business rate from 6% to 3%. Reducing business tax rates helps all Albertans because, at the end of the day, taxes are always paid by people, as consumers or employees or investors. Alberta's low corporate taxes attract investment and new businesses, which create jobs for Albertans. Since the best social program is a job, Alberta's thriving economy produces far more wealth to help disadvantaged people than do the weaker economies of other provinces with higher taxes.

Unlike other provinces, Alberta has no general provincial sales tax, and no provincial payroll tax. Further, we don't have job-killing capital taxes, which are unfair because they bear no relation to a company's profitability. When revenues from oil and gas are taken out of the equation, Alberta's provincial taxes are the lowest in Canada.

Premier Klein's government – along with previous Tory and Social Credit governments – can also take credit for pro-business and pro-development policies which allow Albertans to benefit from our natural resources. Albertans aren't "lucky," as some would have you believe. Rather, we've chosen to develop the gifts which the earth has given us. Saskatchewan, B.C. and numerous jurisdictions throughout the world have also been blessed with abundant natural resources. But people don't prosper when anti-business regimes implement policies which repel investment, deter business growth, and prevent job creation.

The Alberta government's involvement in business – also known as corporate welfare – has been ended for the most part. This is good news for taxpayers, because when it comes to corporate welfare, government lacks the ability to pick winners, but losers always know how to pick government.

School boards can't raise property taxes without taxpayers' consent in a referendum. This puts the onus on politicians to explain and justify why a tax increase is necessary. Without this taxpayer protection legislation, the onus is on taxpayers to explain and justify why they should be able to keep their own earnings. Taxpayer protection legislation doesn't exist yet at the federal, provincial and municipal levels, but having it for school boards is a good start.

The Sustainability Fund is a good tool for fiscal stability, smoothing out the highs and lows of oil and gas prices, and their unpredictable impact on government budgets.

Thanks to liquor privatization, Albertans enjoy more choice and better prices, without long line-ups.

In short, Alberta's economy is doing well, and Albertans are enjoying unprecedented prosperity, thanks to the policies of Premier Klein's government. A solid foundation has been laid. Now is the time to build on that solid foundation. The CTF will always give the Klein government the praise it deserves.

Provincial tax rates	1992	2004	Percentage change
Tobacco tax	$14/carton	$32/carton	129% increase
Health care premium tax	$648/family	$1,056/family	63% increase
Provincial fuel tax	9 cents/litre	9 cents/litre	no change
Corporate income tax	15.5%	11.5%	35% cut
Small business tax rate	6%	3%	50% cut
Personal income tax	46.5% of federal taxes	10% single rate	25% cut

Recommendation #1: Protect taxpayers with legislation

Premier Klein's commitment to a taxpayer protection law with a referendum requirement is longstanding.

In the *Calgary Sun* of March 9, 1997, Premier Klein was quoted as saying:

> "So let's make it so government cannot increase any taxes unless the people tell us to do so. And that would have to be through a provincial referendum and, quite frankly, I don't think the people would ever approve it."

In the *Edmonton Journal* of March 10, 1997, Premier Klein was quoted as saying:

> "We say as a party no new taxes and we will not raise taxes. But just to show people that we are serious about this, we would like to enshrine it somehow in law."

Premier Klein's views on this issue are shared by Albertans, 83% of whom want Alberta to have taxpayer protection legislation, according to a 2002 JMCK poll.

The *Alberta Taxpayer Protection Act* requires that a referendum be held only prior to the introduction of a general provincial sales tax. But any other new taxes and tax increases can be imposed at any time for any reason.

In contrast to Alberta, other jurisdictions have laws which require 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. In the state of Washington, and many other U.S. states, 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.

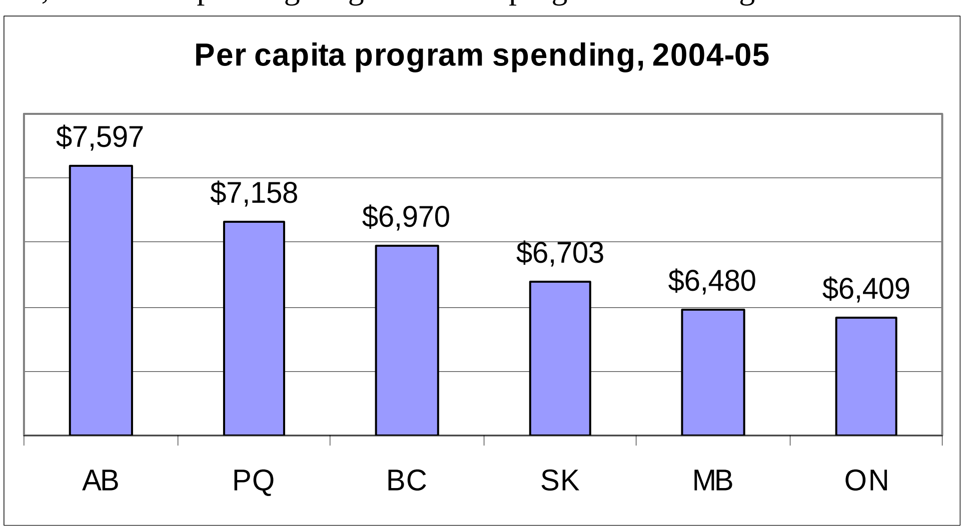
Currently, without taxpayer protection legislation, the onus is on Albertans to justify to politicians why we should be able to keep our own hard-earned money. This is wrong. The onus ought to be on special interest groups and politicians to justify why they want to take more tax revenue from Albertans. 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. This would also fulfill a long-standing promise of Premier Klein.

Recommendation #2: Control spending with legislation

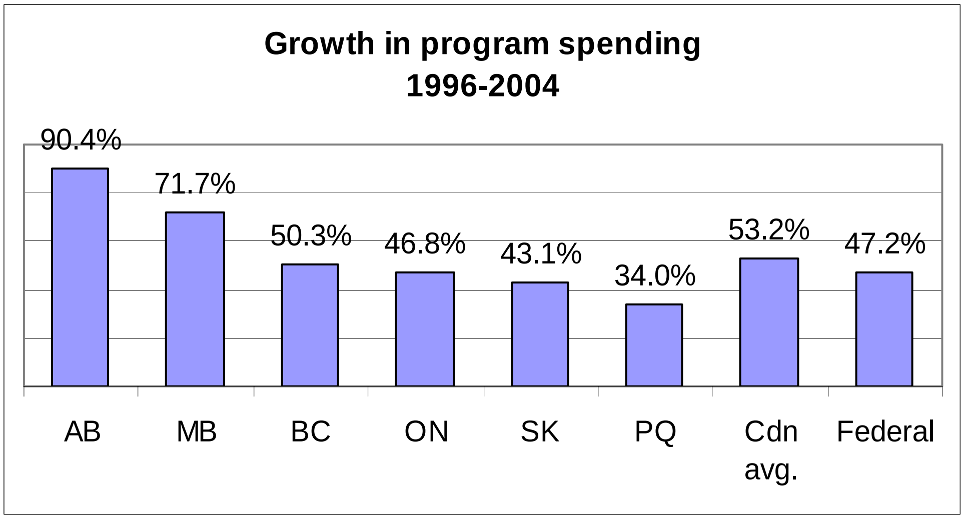
A 90% program spending increase in just eight years, together with $541 million in tax increases in 2002, underscore the need for Alberta to have spending control legislation. Neither Alberta's current legislation nor the Sustainability Fund protect taxpayers from the massive program spending increases, which ultimately result in tax increases or the absence of tax cuts.

	1996	2004	Percentage Increase
Alberta's inflation rate	$100	$123	23%
Alberta's population	2.781 mil.	3.213 mil.	15%
Government program spending	$12.7 billion	$24.2 billion	90%
Program spending, per Albertan	$4,567	$7,597	65%
Inflation-adjusted to 2004	$5,617	$7,597	34%

On a per-person basis, Alberta's spending on government programs is the highest in Canada.



Not only is Alberta's spending the highest in Canada, but growth in spending is significantly higher than in other jurisdictions.



There is a gap of $5.2 billion between current program spending ($24.2 billion) and revenues from sources other than oil and gas ($19 billion). 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 tax increases to keep the budget balanced. This is another reason why current program spending is too high.

Alberta does not have a law to limit growth in spending and taxes.

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. This *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.

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 this next step in fiscal discipline.

2004-05 CTF Alberta supporter survey

What should your CTF-Alberta's number one priority be for the next 12 months?

31%	Improved fiscal legislation to control spending and protect taxpayers
17%	A substantial tax cut in 2005, combined with a spending cut
16%	Health care reform – promoting change in the system towards more accountability and choice
12%	Uncovering and exposing wasteful government spending
12%	A law to enable Albertans to initiate and vote in referendums on issues of their choice
7%	Education reform (merit pay for teachers, more choice, greater accountability)
5%	Undecided/no answer

The CTF's supporters in Alberta list taxpayer protection legislation and spending control legislation as the top priority – even ahead of tax cuts !

The CTF recommends that the Alberta government pass legislation limiting growth in program spending to Alberta's population growth and inflation, or another legislated limit as described above, such as growth in Albertans' income.

Recommendation #3: Reduce Albertans' tax burden by $1.5 billion

The CTF recommends that Albertans' tax burden in 2005-06 be reduced by $1.5 billion, as follows:

$893 million – health care premium tax abolished
$191 million – 3% sales tax on insurance abolished
$200 million – tax relief for parents, through $6,000-per-child exemption
$200 million – reduction of provincial property tax by one sixth

Total: $1,484 million

In light of the 90% program spending increase since 1996, in contrast to Alberta's 23% inflation and 15% population growth, a relatively small reduction in program spending will enable Albertans to keep $1.5 billion more of their own earnings. Limiting program spending to $21 billion for 2005-06 would permit a tax cut of $1.5 billion while keeping the budget balanced. That would still amount to a program spending increase of 65% in nine years – far more than Alberta's inflation and population growth combined.

Reducing taxes will enable the Alberta government to honour the fiscal preferences of Albertans as expressed in province-wide surveys in 1998 and 2000. It is also high on the priority list of CTF supporters in Alberta.

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 (75%), followed by reducing taxes (61%). Increasing priority spending ranked third (56%), followed by increasing savings in the Heritage Fund (19%).

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%). When asked what should be done with one-time revenues, Albertans ranked spending *third* behind one-time tax rebates and savings.

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

2004-05 CTF Alberta supporter survey

Considering your total provincial tax burden – personal income tax, health care premiums, fuel tax, property tax, corporate tax, etc. – would you say your provincial taxes are:

69%	Too high
20%	About right
0	Too low
12%	Undecided/no answer

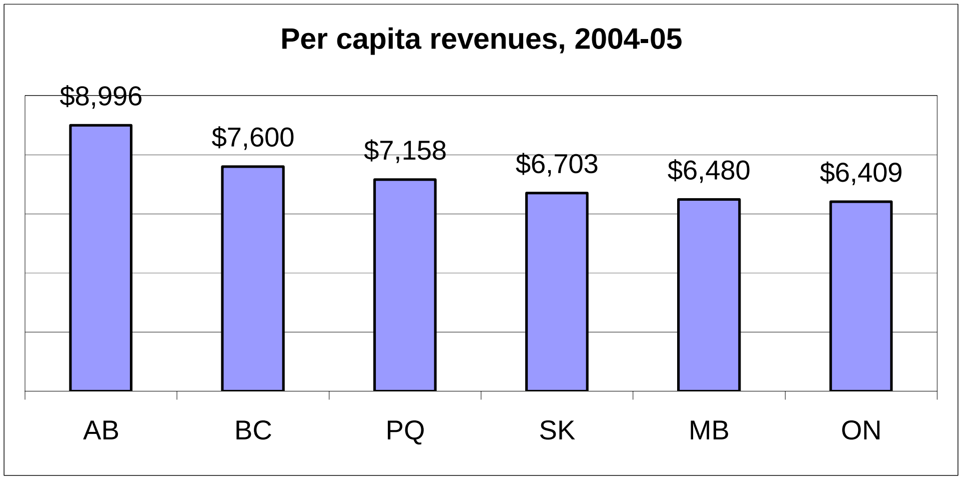
Lower taxes create jobs by increasing consumer purchasing power and by encouraging investment, both foreign and domestic. Lower taxes attract productive and talented people to Alberta. Lower taxes are necessary in a global economy, because labour and capital are highly mobile and can re-locate to other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

2004-05 CTF Alberta supporter survey

When Alberta is debt-free, the government will no longer spend a portion of our tax dollars on debt servicing costs. Between lower taxes and increased spending on government programs, how should these savings be divided? (Average of responses)

68%	to tax cuts
32%	to more spending on government programs

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. Lower taxes raise the standard of living for everyone. Of all the governments in Canada, Alberta's can most easily reduce taxes, because it receives the most money per person.



Recommendation #4:
Abolish the health care premium tax for all Albertans

The CTF welcomed the abolition of the health care premium tax for seniors as a first step towards abolishing this tax for all Albertans.

This age-based exemption, put into place in 2004, has created a situation where seniors who are wealthy, no longer raising children or paying off a mortgage, are exempt from this tax. But middle-income families, struggling with mortgage payments and the cost of raising children, must pay $1,056 per year in addition to other provincial taxes. This is manifestly unfair.

The health care premium tax is a major obstacle to health care reform.

This tax conveys the false message that our health care system costs only $44 per month, or $88 per month for families. In fact, Alberta's public health care system costs almost nine times as much. The health care premium tax does not pay for health care any more, or less, than other provincial taxes. In order for health care reform to succeed, the public needs to understand how expensive our government-run, government-financed, government-evaluated system really is. Albertans need to know that health care makes up more than one third of provincial spending, but 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 $27.7 billion from *other* sources. Revenues from the health care premium tax ($893 million) make up only 3.3% of total provincial revenues ($28,638 million, as per *Second Quarter Fiscal Update*).

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.

Last but not least, this tax is regressive. A family with children, earning $35,000 per year, must pay $1,056 in health care premium taxes in addition to other provincial taxes. 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.

Contrary to what some have asserted, increasing the health care premium tax was *not* recommended in the Mazankowski Report. 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, regressive, expensive to collect, harmful to health care reform, and totally unnecessary. These are the reasons why this tax should be abolished as soon as possible.

2004-05 CTF Alberta supporter survey

Which provincial taxes should be a priority for reduction or elimination, ranking "1" for the highest priority down to "6" for lowest priority. You responded:

1. personal income tax
2. health care premium tax
3. school property tax
4. fuel tax
5. business/corporate income tax
6. alcohol and tobacco taxes

Recommendation #5: Abolish the 3% hidden sales tax on insurance

The Alberta Government continues to contribute to high car insurance costs with its 3% hidden sales 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.

The Alberta government collects a total of $191 million per year in insurance taxes – an average of about $60 for every man, woman and child, or $240 per year for a family of four. A significant portion of this $191 million is paid by business, but at the end of the day, all taxes are paid by Albertans as consumers, employees and investors.

Abolishing this tax – which brings in *less than one percent* of provincial revenues – would leave an extra $240 per year in the pockets of Alberta families. Abolishing this tax would also lower the cost of car insurance.

Recommendation #6: Empower parents with choice on child care

When personal income tax was first introduced as a “temporary” measure in 1917, families with children did not pay income tax (then 4%) on the first $3,000 earned. This doesn’t sound like a large exemption, but considering Canada’s inflation since 1917, this $3,000 is the same as $40,200 in 2005.

But instead of $40,200, today’s federal exemption is a paltry $8,148 for individuals, $6,900 for spouses, and nothing at all for children. Families must pay federal income tax on earnings in excess of $15,048.

The CTF has often applauded the Alberta government for creating the largest individual and spousal exemptions in Canada. These large exemptions, combined with a single-rate of taxation, mean that Alberta does not discriminate between single-earner and dual-earner families. Alberta’s $29,052 family exemption is a huge improvement over Ottawa’s $15,048.

Nevertheless, $29,052 falls far short of the $40,200 (equivalent) exemption that existed when personal income tax was introduced. For families with children, facing the high cost of feeding, clothing, educating and caring for children, an exemption of $29,052 is not adequate.

The federal government plans to introduce an expensive and bureaucratic daycare program that will only benefit parents who put their children in institutional daycare. Parents who make sacrifices to care for their own children will receive no help at all from this new program, while still being required to pay for it with their taxes.

On this issue, Alberta should again lead by example, and show Ottawa a better way of doing things. Rather than creating another bureaucratic boondoggle, parents should be empowered with a per-child tax exemption which allows them to choose what kind of childcare is best – including the choice of “mom-care” and “dad-care” at home.

In addition to the existing personal and spousal exemptions, Alberta should create a per-child exemption of $6,000 per child per year, to lower the provincial income tax burden for parents. For each child, parents would save $600 per year in provincial income tax, which covers a portion of child care costs. This would allow Alberta parents to keep an additional $200 million of their own earnings. This policy would empower Alberta parents with choice, in contrast to Ottawa’s plan of continuing to over-tax families and helping only those parents who choose institutional childcare over home-care. It would also be a practical way for Alberta to lead by example, exercising its provincial jurisdiction to provide good social policy.

Recommendation #7:
Use a portion of oil and gas royalties for income tax refunds

Since 1987, the Alberta government has been spending 100% of oil and gas royalties on government programs, without returning this money directly to Albertans, who own the oil and gas in the ground. It’s time to let Albertans start enjoying these benefits directly themselves, instead of having all the decisions about this money being made on their behalf by politicians and bureaucrats, as is now the case.

2004-05 CTF Alberta supporter survey

The Alberta government receives $4 billion per year (on average) from the sale of oil and gas. In percentage terms, what should be done with this money?" (Below is the average of the responses)

40%	returned to taxpayers through income tax refunds
29%	spent on government programs
12%	annual dividend paid out to every Albertan (whether they paid income tax or not)
11%	put into Heritage Fund for future generations
8%	other (infrastructure was often mentioned)

As shown by the survey results above, CTF supporters in Alberta don't object to *some* of the oil and gas money being spent on government programs. However, the highest level of support is for income tax refunds.

The unpredictability of oil and gas revenues from year to year makes it difficult – if not impossible – to rely on this money for health, education and infrastructure spending. Government programs require stable and predictable revenues from sources like personal and corporate income taxes, property tax, fuel tax, etc. With oil and gas royalties fluctuating from year to year, it is difficult to rely on the entirety of this revenue as the basis for a permanent tax cut.

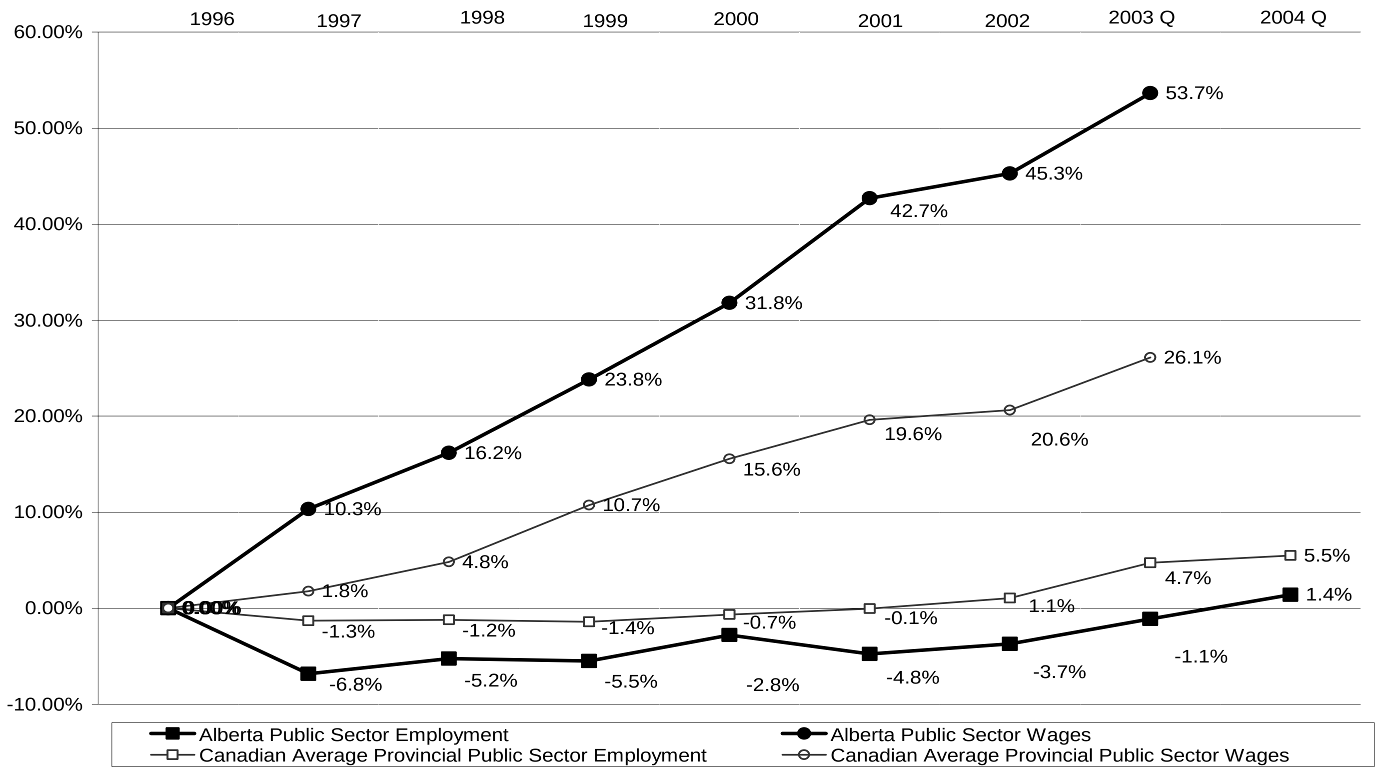
Income tax refunds would be an effective way to let Albertans benefit directly from our oil and gas resources, while still funding government programs through personal income tax. If resource royalties in a given year are low, there will be no income tax refunds, but government programs will still receive adequate funding through personal income tax and other stable sources. If resource royalties in a given year exceed $3 billion, revenues in excess of $3 billion should be refunded to Albertans who paid provincial income tax in the preceding calendar year. This provincial income tax refund would not have to be declared as income, and would not be taxed by Ottawa.

A cheque providing Albertans with a partial refund of the provincial income tax they have paid in the preceding calender year should be mailed in July, after the Annual Report in June has stated what the government's oil and gas revenues were for the fiscal year ending March 31. For example, income tax refund cheques should be mailed to Albertans in July of 2005, in respect of provincial income tax paid by Albertans in the 2004 calender year, the amounts to be calculated in respect of royalties in excess of $3 billion received in the fiscal year ending March 31, 2005.

Recommendation #8: Limit growth in public sector salaries

The major cause of Alberta's 90% program spending increase in the past eight years has been large increases in remuneration given 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 54% in the seven years from 1996 to 2003, while Alberta's consumer price index rose by 16% during the same period.

Increase in Alberta Provincial Public Sector Wages and Employment Over 1996 Base Year



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.

Increases to public sector salaries should be limited to increases received by workers in the private sector. Unfortunately, the Alberta government still 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. 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.

CTF supporter survey

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%

Recommendation #9: End the government's monopoly on health care

Our health care system operates like a monopoly, exhibiting fewer services options, higher prices, lower quality, and a lack of innovation. Reforms must change the incentive structure of the system. 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 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.

When it comes to food, clothing, housing, transportation, recreation, entertainment, and every aspect of life, Albertans are free to spend their own money as they see fit. But when it comes to health care, Albertans enjoy only a limited right to buy more health care or better health care, thanks to the government's virtual monopoly.

2004-05 CTF supporter survey

Do you support a parallel private medical system to coexist alongside the public one?

50%	Support strongly
32%	Support somewhat
6%	Oppose somewhat
6%	Oppose strongly
4%	Undecided/no response

Every industrialized country except Canada allows for the private financing of medically necessary health care (co-insurance, co-payments or deductibles in some form for hospitals, general practitioners, specialists or pharmaceuticals). A partial list includes Austria, Belgium, Finland, France, Germany, Greece, Hungary, Japan, Korea, Luxembourg, Poland, Portugal, Sweden, Switzerland, the United Kingdom. Even countries with very socialized systems use some form of market mechanism (user fees, contracting out of services, private insurers, etc.) to allocate health care.

Pets are entitled to these options – why not their owners?

2004-05 CTF supporter survey

Which element or ingredient is most important to you in a health care system?

28%	timeliness of care (less waiting for treatment)
26%	quality
16%	universality (available to all regardless of income)
11%	accessibility
7%	cost effectiveness
6%	portability (available in all parts of the country)
3%	choice (of physician and treatment)
2%	publicly funded/administered (run by government)
1%	comprehensiveness

The *Canada Health Act* does not require that health care be of high quality, or that health care be delivered in a timely fashion, or that health care be cost effective.

We do not need to change the *Canada Health Act* in order to have private clinics or hospitals deliver care in Canada, to construct and operate new facilities or to deliver ancillary services in care facilities (such as laundry or plumbing), using the private sector. We do not need to change the *Canada Health Act* to have Canadians start saving for the long-term care they may need when they are older (akin to RRSPs). We do not need to change the *Canada Health Act* to offer more provider information to consumers of health care, so that they can make more informed decisions.

Albertans should have the right to pay for what they consider to be services of higher quality from a private provider. In a free and democratic country, people should have the option of paying for their own health care, as much as they have the option of buying food, a new car, or a house.

Recommendation #10:
Don't go back into debt in the name of infrastructure

Premier Klein's legacy of debt freedom is threatened 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 also a popular refrain for selling the idea of going into debt. For example, most of B.C.'s debt was incurred for the sacred cause of "capital spending."

Alberta has more than enough money available for infrastructure, if spending priorities are set and adhered to. Going back into debt, whether for "infrastructure" or any other cause, is simply not necessary. People get a mortgage to buy a house because they have to. If someone has enough money to buy a house without paying interest to the bank, she or he would be wise to do so. The Alberta government has enough money to pay for capital costs without borrowing.

Recommendation #11:
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 – or if the government as a whole – fails to adhere to budgetary targets. This *Act* withholds 20% of the ministerial salary; the MLA portion is exempt. One half of this withheld amount is paid if the minister's ministry meets its budget, and the other half of this withheld amount is paid if the government as a whole meets the targets set out in the budget. In other words, ministers will receive 80%, 90% or 100% of the ministerial portion of their salaries, depending on whether or not their ministry – and the government as a whole – meets budgetary targets.

Alberta should pass similar legislation.

Recommendation #12: Reduce the size of cabinet

In December of 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 90% program spending increase since 1996 has taken place during the same time that cabinet grew in size 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 at the end of 1992.