Canadian Taxpayers Federation

ZERO IN TWO: TAXPAYERS DEFICIT ACTION PLAN

Kevin Gaudet | Derek Fildebrandt
Canadian Taxpayers Federation

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Kevin Gaudet – Federal Director
Derek A.G. Fildebrandt – National Research Director

About the Canadian Taxpayers Federation

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 Saskatchewan 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 67,000 supporters from coast-to-coast.

The CTF maintains a federal office in Ottawa as well as provincial and regional offices in British Columbia, Alberta, the Prairies, Ontario and Atlantic Canada. Provincial and regional offices conduct research and advocacy activities specific to their provinces and regions in addition to acting as regional organizers of nation-wide initiatives.

CTF offices field hundreds of media interviews each month, hold press conferences and issue regular news releases, commentaries and publications to advocate for the common interest of taxpayers. The CTF's flagship publication, *The Taxpayer* magazine, is published four times a year. *Action Updates* on current issues are sent to CTF supporters regularly. CTF offices also send out weekly *Let's Talk Taxes* commentaries to more than 800 media outlets and personalities nation wide.

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.

The CTF's Federal office is located at:
512-130 Albert St.
Ottawa, ON K1P 5G4

Phone: 1-800-265-0442
Email: kgaudet@taxpayer.com
Website: taxpayer.com

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Section I: Summary & Introduction

Executive Summary

- Reduce program spending by $18 billion below 2010-11 levels in addition to curving growth. This returns program spending to levels seen between 2008-09 and 2009-10
- Hold the line on taxes until achieving balance.
- Eliminate corporate welfare, regional development agencies, bio-fuel subsidies, most arts and language subsidies and other select grants and contributions.
- Privatize Atomic Energy of Canada, Canada Post's Purolator Courier and VIA Rail. Also, end taxpayer support for the CMHC. Also, end any financial support for Canada Post.
- Reduce most departmental budgets from 10-25% and freeze remaining budgets for two years.
- Reduce the Equalization Program by 10% annually over two years and assist recipient provinces in paying down respective debts in lieu of cash-transfers.
- Continue growth in Health and Social Transfers and National Defense spending at a reduced rate.
- Pass a *Taxpayer Protection Act* to ban future deficits and tax increases without an explicit mandate to do so given in an election or referendum.
- Pass a *Debt Retirement Act* with a schedule for making Canada a debt-free jurisdiction.
- Prevent a further EI payroll-tax hike by eliminating non-insurance based EI programs.
- Eliminate the Vote Tax – per vote subsidy.

Summary of Reductions	Savings ($ millions)
Departmental & agency budgets	6,237
Crown corporations	4,316
Regional development & other corporate welfare	3,663
Equalization	3,585
Art, culture, language & censorship	1,562
Other subsidies	2,619
Total Reductions	**21,983**

Summary of Spending Cap Savings	Savings ($ millions)
Health & Social Transfer limitations	1,464
National Defence limitations	546
Departmental freezes & other savings	859
Total Savings	**2,869**

See page 12 for more information

Introduction

The federal government must do more than plan to grow out of its current fiscal situation. To do so, clear action must be taken. Simply reducing the rate of growth of spending will not be enough.

Federal program spending has increased by 40% during the four fiscal years between 2006-07 and 2009-10 before plateauing in 2010-11, an increase of $70 billion.[i] Growth in the size of government at this rate has not been experienced at the federal level since the time of Prime Minister Pierre Trudeau. During this period, growth in the economy as measured by gross domestic product (GDP) grew by 10%, massively outpaced by the growth in program spending 3.9 times over.[1] Similarly, the average annual combined rates of inflation and population growth during this period was 2.7%, which was outpaced by spending growth 2.9 times over.

When governments increase spending beyond the combined rates of inflation and population growth, the result, eventually, is always the same: deficits. The deficit in 2009-10 was an all-time Canadian nominal record at $55.4 billion; close to the inflation- adjusted record set by Prime Minister Trudeau in 1984 and well beyond inflation- adjusted deficits racked-up during either world war.[ii] Unless Canadians are willing to face another financial crisis as experienced during the 1990s - a time when the *Wall Street Journal* called Canada "an honorary member of the Third World" - hard decisions will be required.

As Canada faces a steep demographic crisis, the situation will become more difficult, not less. Already, governments in the United Kingdom and Germany have begun to reform their entitlement programs in an effort to balance their budgets and brace for the retirement of the baby-boomers. Similar efforts will be required by the Government of Canada to balance the budget and create the fiscal room necessary to pay down the debt.

Last year, the Canadian Taxpayers Federation (CTF) released *Zero in Three: Canada's Deficit Action Plan* as a guide to the Government of Canada for balancing the budget using a combination of spending reductions and freezes, while at the same time delaying new tax relief until a return to surplus. This year, the CTF continues to advocate for a return to balanced budgets in its submission to the Government of Canada, but does so with added urgency.

[1] Increase in program spending from 2005-06 to 2009-10 divided by increase in GDP from 2005 to 2009.

The CTF's plan is based upon three principles.

1. Deficits are deferred taxation, destructive to the long-term finances of a country and are an immoral burden to place upon future generations;

2. Current plans for balancing the budget are unacceptably timid in their medium-to-long-term framework; and

3. Balancing the budget must be achieved through reductions and freezes in spending, not by raising taxes.

Using these three principles as a framework, the CTF presents its 2010-11 pre-budget submission, *Zero in Two: Taxpayers Deficit Action Plan.* This plan is unique in Ottawa in that it is not a request for more funding by a special interest group, but rather a call for reduced spending.

Fact Summary

- Canada's federal debt increased by $151.8 million per day in 2009-10 and continues to increase by $124.4 million per day in 2010-11.
- The $105.2 billion in debt paid down between 1997-98 and 2007-08 will have been added back before the end of the 2010-11 fiscal year.
- Program spending has increased by 40% during the four fiscal years between 2006-07 and 2009-10 - an increase of $70 billion – and is expected to plateau in 2010-11 before resuming growth.
- The last 40% four-year program spending increase was between 1972-73 and 1975-76.
- Had program spending been limited to the combined rates of inflation and population growth (2.7%) since Paul Martin's first budget in 2003-04, there would be a surplus in 2010-11 of $25 billion.
- Had the Harper government limited program spending-growth since 2006-07 to the combined rates of inflation and population growth of 2.7% annually, the deficit in 2009-10 would have been only $6 billion with a surplus of $6.4 billion in 2010-11.

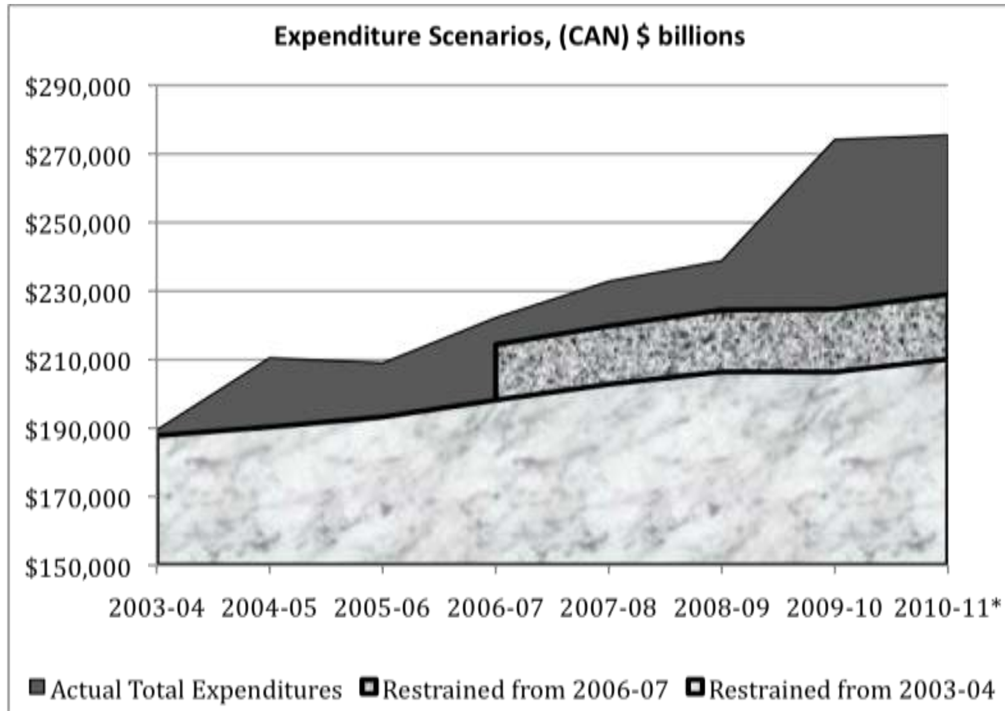
Section II: Finances Today

The State We're In

In the mid-1990s, the *Wall Street Journal* dubbed Canada "an honorary Third-World country" because of rampant and long-term deficits.[iii] A decade earlier, Canada's finances were on a course for this dubious distinction with the careless abandon of politicians in all parties. In the ten years between 1985 and 1995, groups including Canadian Taxpayers Federation (CTF), new political parties and a few politicians in old parties, began to turn the tide of public opinion away from perpetual deficit financing.

When a historic deficit-fighting budget was tabled in 1995, Canada faced a situation not dissimilar to that currently facing the PIIGS (Portugal, Ireland, Italy, Greece and Spain). Such was the state of Canada's finances that for every dollar collected by the federal government 29-cents was spent on debt interest. When debts became too large to manage and the easy route of continued deficits was cut off, only two choices were left: cut spending or raise taxes. While accompanied by several small tax increases, the decision leaned overwhelmingly in the right directions, reductions in government spending.

Following the initial fiscal discipline imposed in these reductions, spending again began to climb beyond the combined rates of inflation and population growth. 2000-01 - an election year - marks the end of the 'austerity era' with an annual program spending increase of 9%, or $12 billion, continuing at an average growth rate of 5% until 2004-05, another election year. That budget saw the single largest spending increase since 1982-83 at 13%, or $23 billion. The first budget tabled by the new Conservative government in 2006-07 included a 7%, $13 billion increase, largely attributable a massive increase in transfers to the provinces under the guise of an undefined "fiscal imbalance." This trend continued for another two budgets resulting in a 17% spending increase before the first dollar of "stimulus" money was spent during the recession.



Public Accounts of Canada & the Office of the Parliamentary Budget Officer[2]

The two fiscal years encompassing the recession (2008-09 and 2009-10) saw revenues decline by 6%, a sum of $14 billion, not including any expected increase in revenues. That same period also saw a nearly unprecedented increase in program spending of 15% as fully $37 billion more than was spent in 2008-09. Put another way, had spending been frozen - let alone reduced - the deficit in 2009-10 only would have been a third of what it turned out to be.

As the lessons of the PIIGS and pre-1995 Canada bear out, fiscal discipline must be practiced at all times and not just during crises. Had program spending been limited to the combined rates of inflation and population growth (2.7%) since the Conservative government tabled its first budget in 2006-07, the deficit in 2009-10 would have been a manageable one-year shortfall of $6 billion. The savings from limiting spending from 2006-07 would have yielded an $84 billion *net* difference relative to the surpluses and deficits in that time period. These savings could have been put towards paying down the debt or creating space for the only form of fiscal stimulus proven to work, tax cuts.

Had the same measure of restrained growth been in place since Paul Martin took power in 2003-04, no deficit would have been recorded at all with 2009-10 seeing a $12 billon surplus and 2010-11 showing a $23 billion surplus. Net savings between 2003-04 and the end of 2010-11 relative to the actual balance of surpluses and

[2] 2003-04 to 2009-10 program spending: Public Accounts of Canada 2010. 2010-11 program spending: Office of the Parliamentary Budget Officer

deficits would amount to a staggering $257 billion, without accounting for the significantly smaller debt interest payments that would result.

While moderate fiscal discipline could have prevented the current red state of Canada's federal finances, stiffer medicine will be required to correct them in an acceptable period of time.

Emerging From the Recession and 'Stimulus'

The federal government deserves partial credit for Canada's economic recovery, namely, what it did *not* do. Withstanding opposition calls to cancel or reverse business tax cuts will continue to make Canada's economy more competitive against emerging economies. Maintaining smarter - but not necessarily tighter - banking regulations than the United States helped to ensure that Canada did not face a major banking or credit crisis.[iv] The government also deserves modest credit for standing up to American moves towards protectionism, although its own record has been marred by new industry subsidies and the blocking of two foreign acquisitions.

While politically tempting to point to, there is little evidence to support claims that 'stimulus' spending financed by deficits made a net contribution to Canada's economy recovery. A study by *Fraser Institute* states that government spending accounted for just 0.2 percentage points of the 1.1% growth in GDP between the second and third quarters of 2009. According to the Institute's Niels Veldhuis,

> The federal government has repeatedly claimed credit for Canada's improved economic performance in the second half of 2009, [although] Statistics Canada data show that government spending and investment in infrastructure had a negligible effect on the country's improved economic growth.[v]

In effect, Canada's economic recovery took place in spite of fiscal stimulus measures, not because of them.

Where Canada's Finances Are Going

Prime Minister Stephen Harper and Finance Minister Jim Flaherty have made encouraging statements about returning to budgetary balance. On November 22, 2010, Minister Flaherty stated, "This is not the time for risky new spending that will increase deficits and raise taxes. Budget 2011 will not include significant new spending." This statement is welcomed, but must be reconciled with past statements pledging to increase spending long into future. Even while 'stimulus' measures wind down, spending elsewhere - namely transfers to other levels of government and to individuals - will continue to increase at levels that will soon render stimulus reductions moot.

Current Fiscal Outlook ($ billions)[vi]						
	2010-11	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**
Revenues	**235.4**	**248.9**	**262.2**	**277**	**289.8**	**303.8**
Program Spending	243.9	244.6	250.3	257.4	263.6	272.6
Debt Charges	31.6	33.9	36.5	38.9	40.8	42.2
Total Expenditures	**275.5**	**278.5**	**286.8**	**296.3**	**304.4**	**314.8**
Balance	**-40.1**	**-29.6**	**-24.6**	**-19.3**	**-14.6**	**-11**
Debt	559.1	588.7	613.3	623.5	647.1	658.1

Canada's current fiscal outlook is a path of continued and harmful deficits. Finance Canada's own projections bear this out, albeit while planning for a long series of best-case scenarios. The Office of the Parliamentary Budget Officer (PBO) has taken a similar, albeit slightly more optimistic view of revenue projections; however this is tempered by significantly higher projected levels of spending, largely due to Canada's demographic crisis bearing its fruit. PBO's February 2010 *Fiscal Sustainability Report* concluded that "the Government's current fiscal structure is not sustainable over the long term."[vii]

Using projected revenue and expenditure figures from the PBO's *Economic and Fiscal Assessment 2010*, it is clear that unless Canadians are willing to sit idly by as governments build an increasingly raw legacy for their children, something will have to be done. The PBO has already stressed that if the structural deficit is to be eliminated – as much as politicians may deny one exists – either spending cuts or tax hikes will be required.

> PBO estimates that the Government's structural deficit will decline only gradually to $10.2 billion in 2015-16 or 0.5 per cent of potential income, which is significantly smaller than the structural deficits observed in the 1980s and early 1990s. PBO's estimate of the structural deficit does not mean that the Government's budget will not return to balance. Rather, it suggests that policy actions to increase revenues and/or reduce spending relative to their projected paths would be required to ensure that the budget is balanced once the economy returns to its potential.[viii]

To achieve a balanced budget without raising taxes requires a dedicated focus on priority government spending and an end to that which is non-priority.

Section III: Limiting Government

Fiscal Summary

In producing a fiscal model with which to work, this report uses the 2009-10 *Public Accounts of Canada*[ix] and extrapolates forward using the PBO's forecast for program spending and debt interest. This is done while adjusting for scheduled increases in several major transfer programs as detailed by Finance Canada's *Update of Economic and Fiscal Projections.*[x]

Zero in Two Outlook ($ billions)			
	2010-11	**2011-12***	**2012-13***
Budgetary Revenues	**235.4**	**248.9**	**262.2**
Program Spending	243.9	229.9	225.4
Public Debt Charges	31.6	33.9	36.5
Total Expenses	**275.5**	**263.8**	**261.9**
Balance	**-40.1**	**-14.9**	**0.3**
Federal Debt	559.1	574.0	573.8

**Zero in Two*

In order to achieve a balanced budget within two year, total expenditures must be reduced by $13.5 billion. Because annual interest on the debt (public debt charges) will grow by $4.9 billion during this period, absolute reductions in program spending must account for $18-billion.

Using current revenue projections, this will eliminate the deficit by 2012-13, producing a small $300 million surplus that year. Further, savings from absolute spending reductions, freezes and curving growth in key areas will create a lower spending base moving into the future.

Spending Reductions

Even while spending in some areas is reduced, other areas of government will continue to grow. For this reason, it is necessary to reduce spending in select areas beyond the *net reduction* of $18 billion. To meet this target, this report identifies nearly $22 billion in spending reductions and restricts growth in other areas to find an additional $2.9-billion in savings.

Areas identified for reductions and restraint in this report hold at least one of the following two criteria:

- Spending is not a core function of government: the protection of life, freedom and property, and the provision of necessary public services that cannot be sufficiently carried out by the private sector.
- Spending is not within the constitutional bounds of the federal government

Spending Reductions, 2012-13[3]	Reduction/ Action	Savings ($ millions)
Human Resources & Skills Development		**5,250**
Department less major transfers	20%	747
Labour market grants and contributions	eliminate	1,488
Canadian Mortgage and Housing Corporation	make revenue neutral	3,015
Equalization		**3,585**
Equalization payments and related accords	10% annually	3,585
Industry		**2,649**
Department	25%	350
Subsidies to businesses	eliminate	572
Other grants and contributions	eliminate	1,040
National Research Council	50%	463
Other sub-agencies	10%	225
Natural Resources		**2,003**
Department	25%	483
Bio-fuel and eco subsidies	eliminate	593
Other grants and contributions	eliminate	85
Atomic Energy of Canada	privatize	842

[3] Spending reductions in 2012-13 are relative to estimated spending levels in 2010-11.

Agriculture		**1,851**
Department	10%	154
Agri and bio-fuel subsidies	eliminate	1,658
Dairy and Grain Commissions	eliminate	39
Heritage		**1,742**
Department	25%	77
Art, language, culture subsidies	eliminate	1,146
Council for the Arts, National. Film Board, Telefilm, Office for Status of Women	eliminate	388
CBC	10%	113
CRTC, Nat. Arts Centre, PS Commission, PS Lab Relations Board, PS Staff Tribunal, Registry of PS	10%	17
Transport		**1,008**
Department	10%	532
Eco subsidies	eliminate	10
Other grants and contributions	eliminate	6
Canada Post	Privatize Purolator	73
VIA Rail	privatize	387
Regional Development		**728**
ACOA, FDASO, EDACRQ, FedNOR, WED, CanNor	90%	728
Canada Revenue Agency		**658**
Department	15%	658
Health		**567**
Department and all sub-agencies	10%	567
Public Works & Government Services		**400**
Department	15%	400
Can. International Development Agency		**375**
Department	10%	375
Foreign Affairs & International Trade		**255**
Department	10%	255
Fisheries & Oceans		**194**
Department	10%	194
Citizenship & Immigration		**172**
Department & Canadian Refugee Board	10%	168
Multiculturalism subsidies	eliminate	4
Environment		**166**
Department and other sub-agencies	10%	102
Subsidies to eco-businesses and initiatives	eliminate	63

Indian Affairs & Northern Development		**123**
Department	10%	123
Justice		**95**
Department	5%	71
Human Rights Tribunal and Commission	eliminate	24
Finance		**85**
Department less major transfers	10%	85
Parliament		**56**
Senate, House of Commons and other sub-agencies	10%	56
Privy Council Office		**19**
Department	10%	19
Governor General		**2**
Department	10%	2
Total		**21,983**

HRSDC: Trimming a Mammoth Bureaucracy

Human Resources and Skills Development Canada (HRSDC) is one of the largest federal bureaucracies with an estimated annual departmental budget of $3.7 billion, not including it's spending on transfers that include Old Age Security, the Guaranteed Income Supplement, the Child Benefit and various other programs. Paring this bureaucracy back - without reducing transfers - by cutting its departmental budget by 20% would see annual savings of approximately $747 million. Further eliminating 'labour market' grants and contributions would also realize savings of $1.5 billion.

Recommendation: Reduce departmental budget by 25% while eliminating labour market grants and contributions.

Savings: $2.2 billion

CMHC Reform

The Canada Mortgage and Housing Corporation (CMHC) helps to fulfill an important purpose: providing insurance for high loan-to-value (LTV) mortgages to reduce risk in the real-estate market. Despite this, the CMHC competes on unfair ground against private insurers and is used by the federal government to advance social objectives. The CTF supports the key recommendations flowing from a report published by the *MacDonald-Laurier Institute* including calls to:

- Reposition the existing CMHC residential mortgage insurance (MI) program into a newly formed subsidiary or affiliated government-owned corporation that is not a 100% guaranteed Crown

Corporation, but rather is a public sector entity structured to compete on a more level playing field with its private sector counterparts.

- Take whatever additional steps may be feasible to help assure that the tax burden on the new public MI affiliate of CMHC is equivalent to that of its private sector counterparts.[xi]

In addition to reforming the role of the CMHC, removing taxpayer support will bring estimated annual savings of more than $3 billion by 2012-13.

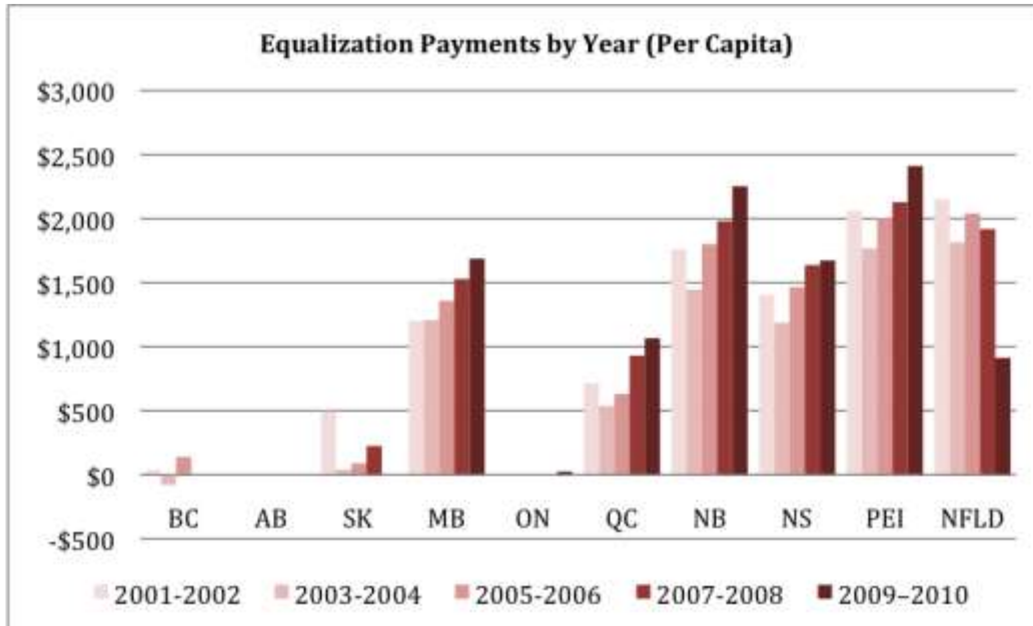
Recommendation: Remove taxpayer support for the CMHC, subject it to more rigorous market forces, and implement key recommendations in the *Mortgage Insurance in Canada* report by the MacDonald-Laurier Institute.

Savings: $3 billion

Equalization: Restoring Self-Sufficiency

The CTF recognizes that Canada's provinces have significantly varying fiscal capacities and that work must be done in order to help those provinces currently collecting Equalization. Despite the good intentions of programs like Equalization, most 'have-not' provinces have become *more,* not *less* reliant of federal payments. Spending on Equalization and related accords has ballooned to an estimated $19 billion in 2010-11. *Zero in Two* proposes a 10% a year reduction over two years while simultaneously reforming the nature of its payments for this period.

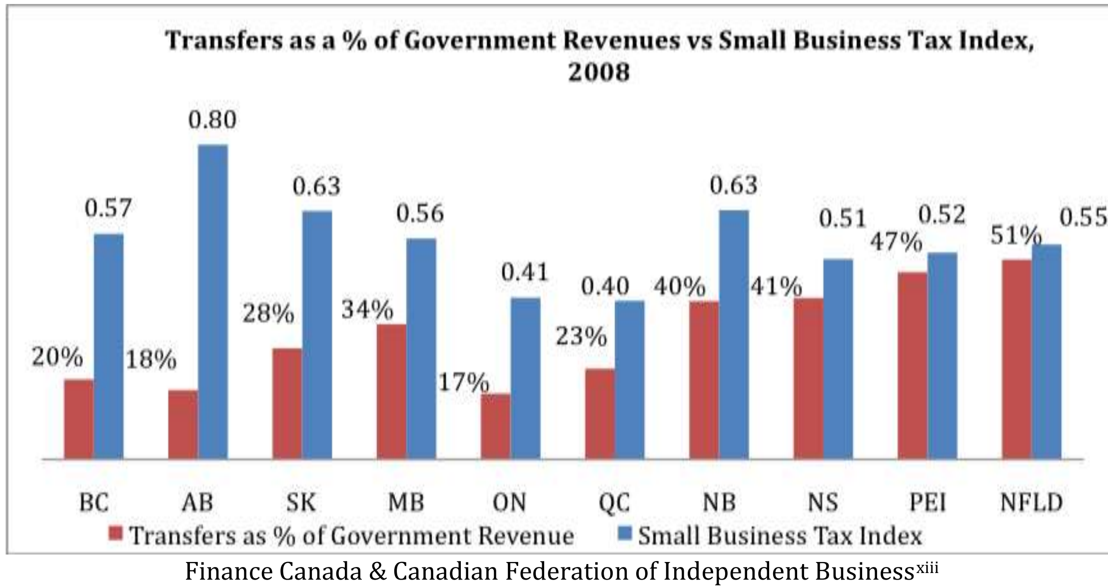
With the lonely exceptions of British Columbia (which has gone back and forth) and Saskatchewan, every single province that was a recipient of Equalization and related accord payments in the 1980s is still a recipient today. When one factors in what was paid to the federal government against what was received in Equalization, the trend line is clear; provinces that were dependent in the past are dependent today, and are likely to be so long into the foreseeable future.



Canadian Taxpayers Federation[xii]

Provinces that languish in "have-not" status continue to be dependent because the federal government creates real disincentives for provincial governments to make their economies more competitive through less regulation, decreased corporate and personal income tax rates and more competition.

Not surprisingly Ontario – now a have-not province – has seen tax increases and an increasingly stifling business environment. The Canadian Federation of Independent Business (CFIB) recently placed Ontario at 4.1 out of 10.0 in rating the best provinces for taxes on small businesses, only marginally ahead of Quebec at 4.0. What is surprising is that New Brunswick has soared all the way to second place behind Alberta. That a have-not province with a history of governments unaccustomed to the reality of a market economy could make the changes necessary to open itself up to business is a testament to political willpower and common sense. Unfortunately, New Brunswick's new government is considering undoing some of this progress rather than control spending in order to eliminate to balance its budget.



Finance Canada & Canadian Federation of Independent Business[xiii]

Rather than disband the Equalization Program entirely, this report proposes that it be overhauled from a 'federal welfare' program, to a 'provincial debt retirement program.' This means rewarding good governance with good incentives for provinces that have struggling economies by: matching provincial debt reduction dollar-for-dollar, phasing out by 10% annually; and continuing to liberalize internal trade through initiatives like a single securities regulator, the Trade, Investment and Labour Mobility Agreement (TILMA) and the Agreement on Internal Trade (ATI), utilizing federal commerce powers if necessary.

The positive effects of such measures will mean both that provincial governments have a greater fiscal capacity to govern themselves with sovereignty, and that the federal government will have more fiscal room with which to reduce the burgeoning deficit.

Recommendation: For two years, convert the Equalization Program into a Provincial Debt Reduction Program, reducing payments by 10% annually.

Savings: $1.8 billion in 2011-12
$3.9 billion in 2012-13

Industry: Eliminating Corporate Welfare

Corporate welfare comes in many shapes, sizes and departments. Among the leading departments involved in the subsidization of private businesses is Industry Canada. Determining what constitutes 'corporate welfare' can be a difficult task beyond identifying corporations or industries that receive targeted grants, contributions, tax credits, tax exemptions and other means of selectively 'choosing winners and losers.' For example, a grant made to a private firm to research new cancer treatments or design a new fighter jet may be considered a legitimate public-private-partnership (P3) – so long as grants are made within an open and transparent tendering process. Conversely, where benefits noted above (grants, subsidies, tax exemptions, etc.) are made without a clear 'value for money' exchange for goods or services, they cross the line from P3 to 'corporate welfare.'

Even in times of surplus, successful private businesses and individual taxpayers subsidizing other businesses (by whatever means) is harmful to the economy. Transferring precious resources from productive firms to unproductive firms on ad-hoc basis (such as General Motors) or on an ongoing, annual basis (such as Bombardier) creates significant distortion within the economy and removes revenue room from which business taxes can be lowered on a broad-basis.

Previous budgets have already made significant commitments to broad-based business tax relief. These are extremely positive measures that will foster economic growth and recovery without politicians and bureaucrats 'picking winners and losers". Opposition calls to repeal these measures are reckless and potentially costly to Canada's economic recovery, but these calls will hold some currency so long as the federal government continues to run deficits.

In order to protect important business tax relief and remove harmful distortions created by subsidies, the Government of Canada should begin its corporate welfare-elimination program with Industry Canada.

Recommendations: Reduce Industry Canada's departmental budget by 25%, the Research Council budget by 50%, and eliminate subsidies and grants to businesses and select organizations.

Savings: $2.7 billion

Natural Resources: Closing the Subsidy Tap

After Industry Canada, Natural Resources Canada is the second largest target for corporate welfare cutting in this report. Government has a legitimate role to play in the long-term protection of Canada's natural resources, but plays only a distortionary role in the economy when it enters the subsidy business.

Recommendation: Reduce departmental budget by 25%, eliminate bio-fuel and "eco"-subsidies, and eliminate other selective grants and contributions.

Savings: $2 billion

Agriculture: Returning to Core Priorities

Agriculture is a critical sector of the Canadian economy and should be encouraged by continuing to build a low business tax environment and by reducing burdensome red tape placed upon farmers at all three levels of government. Creating room for tax cuts that are not paid for by deficits means cutting spending. Farmers are independent and do not need large bureaucracies supervising them, nor do they need subsidies pushing them out of their traditional crops in favor of growing government-approved bio-fuels to meet dubious Kyoto Protocol targets.

Recommendation: Reduce department budget by 10%, eliminate the Dairy and Grain Commissions, and end bio-fuel and other agri-subsidies.

Savings: $1.9 billion

Heritage: Curbing a Legacy of Waste

Few departments spend more taxpayers' money on non-core functions of government than Heritage Canada. Canadians value their heritage and the legitimate public works of libraries and museums, yet Heritage Canada is largely in the business of subsidizing private interests that may run contrary to the consumption choices of individual citizens. The massive subsidy industry surrounding Heritage Canada makes it ripe for reductions by any government serious about balancing its budget.

Recommendation: Reduce departmental budget by 25%, CBC budget by 10%, eliminate art, culture and language subsidies, and eliminate the Council of the Arts, National Film Board, Telefilm Canada, and the Office of the Coordinator for Status of Women Canada.

Savings: $1.7 billion

Transport

Like many other departments, Transport Canada engages in the corporate welfare and subsidy business in addition to overseeing two crown corporations that no longer serve a purpose that cannot be met by the private sector.

As Canada began moving out the era of state-owned enterprises in the mid-1980s, several crown corporations were sparred the discipline brought on by privatization. Among these Cold War holdovers are VIA Rail Canada and Canada Post. While some former crown corporations are still partially protected, they have been removed from state-ownership and (for the most part) taxpayer funding. In an era where state-ownership of industry is largely considered an anachronism, the continued status of VIA Rail and Canada Post as wards of the state defies logic.

Recommendation: Reduce departmental budget by 10%, eliminate eco and other subsidies, privatize VIA Rail Canada and Canada Post.

Savings: $1 billion in addition to the proceeds of sale

Eliminating Regional Development

Regional development agencies may do a poor job of growing the economy, but they have been markedly successful at growing themselves in recent years. Oft touted by local politicians as a means for 'regional economic development,' these agencies have little other purpose than greasing ridings before an election. A 2009 study of Western Economic Diversification (WED) by the CTF found that:

> Over the years there has been a striking correlation between the department's spending spikes and the timing of federal elections. The fact that the department funds everything from airport lighting to cemeteries doesn't help its reputation as a 'catch all' political slush fund either.[xiv]

Among the report's other findings was that so called "loans" from WED had a mere 51.8% repayment rate and that $134 million in loans have been written-off since 1987.

There is little if any hard evidence to demonstrate that 'regional development' agencies actually improve the economy of the area in which they are responsible for. If they did, the regions represented by two of the oldest of these agencies – the Atlantic Canada Opportunities Agency (ACOA) and the agency responsible for

Canadian Economic Development Quebec Regions (CEDQ) – would not also be some of the most economically depressed parts of the country today.

In addition to ACOA and CEDQ, the Federal Economic Development Initiative for Northern Ontario (FedNor) and Western Economic Diversification (WED) have also had their turn with little evidence to demonstrate that the monies they spend improve the economy relative to the monies they tax.

While in opposition, the Conservatives (and before them the Reform and Progressive Conservative parties) had a mixed record of opposing regional development agencies; however that record has since passed into steadfast support. In 2007, the Conservatives released a media backgrounder attacking Progressive Conservative-turned-Liberal MP Scott Brison for his statements concerning ACOA[xv]. Examples of these statements include:

> I'm an Atlantic Canadian MP who had the guts to say ACOA isn't working for Atlantic Canada, and getting rid of it and replacing it with dramatic tax reform for Atlantic Canada.
>
> I believe we need to replace failed regional economic development programs and corporate welfare with dramatic corporate-tax reductions, because the market can pick winners and losers better than bureaucrats.
>
> The fact is, the government is taking $380 million out of Atlantic Canada in corporate taxes - money that comes from the most productive corporate entities in Atlantic Canada - and using 500 ACOA employees to process that money and return a small portion of it to other ventures in Atlantic Canada. It becomes a very dubious economic proposition. Why wouldn't we leave that capital with these productive Atlantic Canadian entities, who know how to invest it and know how to grow their businesses and employ Atlantic Canadians?
>
> ACOA has become a Liberal government tool used to control Atlantic Canada.
>
> ACOA encourages businesspeople to work the government system, not the market, to attract money…Often, this government assistance gravitates to politically and bureaucratically advantaged companies, many of which would have proceeded with the same projects with or without government involvement.

Mr. Brison's words could not be truer, and they are equally applicable to other regional development agencies including the two created by the Conservative government: the Federal Development Agency for Southern Ontario (FDASO) and the Canadian Northern Economic Development Agency (CanNor). With an agency now in every part of the country designed to shuffle money from one place to another, these corporate welfare vats have outlived their usefulness.

Recommendation: Eliminate regional development agencies and transfer the remaining legitimate functions to more appropriate departments.

Savings: $728 million

Canadian International Development Agency

Moves by the Canadian International Development Agency (CIDA) to target foreign aid to specific countries and away from the United Nations are good news for Canadian sovereignty, Canadian taxpayers and recipients. Doing so ensures that foreign aid spending is more accountable, that taxpayers receive better value-for-money, and that recipients have a better chance of receiving aid than they otherwise would through multi-lateral organizations.

While Canadians tighten their belts domestically, governments must do the same in spending abroad. Tightening spending on foreign aid however should be coupled with renewed efforts to reducing trade barriers with the developing world. The breakdown of the Doha global free trade talks was largely attributable to the refusal of governments in the developed world to reduce trade barriers and agricultural subsidies.[xvi]

Rather than continue in the perpetual business of increasing foreign aid, Canada should lead developed countries in removing barriers to trade with the developing world and move towards a policy of 'trade, not aid.'

Recommendation: Reduce departmental budget by 10% while renewing efforts to remove barriers trade barriers with developing countries.

Savings: $375 million

Environment

The CTF has been a consistent critic of government plans to tax and regulate the economy to meet dubious Kyoto-Protocol targets. The Government of Canada has rightfully resisted calls to hammer the economy by imposing massive new regulations and/or taxes to meet these targets and has made admirable progress on issues of real environmental importance such as restoration of the Great Lakes, cleaning up spills and preserving natural parks. None-the-less, Environment Canada remains a massive bureaucracy that devotes significant energies to Kyoto-based endeavors.

Recommendation: Reduce departmental budget by 10% and eliminate 'eco-business' and other subsidies.

Savings: $166 million

Other Ministries

This report's recommendations for Health Canada, the Department of Foreign Affairs and International Trade (DFAIT), Fisheries and Oceans, Citizenship and Immigration, Indian Affairs, Finance (less major transfers), Privy Council Office (PCO) and the Governor General are simple: an across the board reduction of 10%. Similarly, this report also calls for reductions of 15% to the Canada Revenue Agency (CRA) and the Department of Public Works and Government Services (PWGS).

Recommendation: Reduce departmental budgets (less major transfers) for Health, Foreign Affairs, Fisheries, Immigration, Indian, Affairs, Finance, PCO and the Governor General by 10%, and the budgets of the CRA and PWGS by 15%.

Savings: $2.5 billion

Curbing Growth in Spending

In addition to reducing spending in the areas noted above, program spending in many other areas is expected to increase. In order to ensure that the fiscal room created by these reductions is not significantly eroded by increases elsewhere, this report finds nearly $2.9 billion in savings from limiting growth in several areas to levels below current projections.

Curtailing Growth	Limitation	Relative Savings ($ millions)
Transfers to the Provinces		
Health and Social transfers	Limit growth to 2.1%	**1,464**
National Defence		
Department less Afghan deployment & 2010 Olympics ends	Reduce growth by 50% beyond current limitations[4]	**546**
Select Departments & Programs		
See appendix	Freezing and lower base spending	**859**
Total	-	**2,869**

Health & Social Transfers: Restoring Our Federal Union

It is not without a particularly Canadian irony that one of the largest spending items in the federal budget is directed to two areas over which it has no constitutional authority: health and social policy. Yet in 2009-10, these two transfers to the provinces amounted to $35 billion. Under an agreement signed with provincial premiers in 2004, Prime Minister Paul Martin agreed to maintain and increase these transfers year-over-year until the agreement expires in 2013. With the federal government in a significant structural deficit, spending in areas outside of its constitutional authority make Health and Social Transfers ripe areas for saving. Despite this, Prime Minister Martin's agreement means that the provinces have made their long-term spending and revenue plans dependent upon these transfers, making it unlikely that the federal government will remove them before the agreement expires.

Therefore, the federal government should limit the growth of Health and Social Transfers to 2.1% until the conclusion of fiscal year 2013-14. During this period, the federal government should make plain to the provinces that in 2014-15 and beyond, the federal government will begin phasing out the Canada Health Transfer and Canada Social Transfer while simultaneously vacating 'tax points.' Former Industry Minister, Maxime Bernier has already championed this cause in a speech delivered to the Albany Club in October of 2010,

> Instead of sending money to the provinces, Ottawa would cut its taxes and let them use the fiscal room that has been vacated. Such a transfer of tax points to the provinces would allow them to fully assume their responsibilities, without federal control…Freed from federal conditions and unable to shift the blame to another government, provinces would also be more inclined to experiment. Especially in finding better ways to deliver health care services.[xvii]

[4] National Defence spending growth was already curtailed in *Budget 2010*.

Recommendation: Freeze health and social transfers until 2013-14 and begin phasing out in 2014-15 while simultaneously transferring tax points.

Savings: $5 billion[5]

National Defence

After decades of neglect, the Government of Canada has rebuilt the armed forces; however this process has not been without a significant financial cost. In the fiscal years between 2005-06 and 2009-10, defence spending as a percentage of total government expenditures has increased 0.4%, bringing the total to $20.9 billion. While much of this is attributable to re-equipping the forces with new capital assets and the cost of the Afghan deployment, it is an increase that cannot continue unabated while the federal government remains in a deficit position.

In Budget 2010-11, Finance Minister Jim Flaherty announced plans to curtail future growth in defense spending. Further curtailing of growth will be required in order for the Department of National Defence to make a meaningful contribution to balancing the budget.

Recommendation: Reduce scheduled growth in the National Defence budget by 50% for 2012-13 and 2013-14, and require that all future capital acquisitions be open to tendering.

Savings: $546 million

Select Departments and Programs

Freezing spending of many other departments and programs produces moderate savings. These savings also include lower "base-costs" of departments and programs attributable to absolute spending reductions discussed earlier.

Recommendation: Freeze other departments and programs identified in *Supplementary Information.*[6]

Savings: $859 million

Public Sector Pay and Pensions

Canada faces a long-term financial crisis in the form of public sector pensions. The legacy cost of current "defined-benefit" pension plans is staggering with liabilities of $208 billion according to a report by the C.D. Howe Institute.[xviii]

[5] Savings are calculated on the basis of funds *not spent* in 2012-13

[6] *Supplementary Information* is available upon request

In 2010, there are 261,159 federal retirees and survivors receiving retirement payments. This is projected to grow to 296,180 in 2015 – a 13.4% increase – when fewer taxpayers will be around to pay for more retirees. To reform the plan, the Government of Canada must consider a variety of measures including: requirement that employees pay higher contribution rates, reduced benefits and indexation rates and delayed retirement. In making these changes, it is likely that some employees already close to retirement will need to be 'grandfathered' and retain their current defined-benefit plans.

The federal government must convert the plan for non-grandfathered and future employees to a defined-contribution plan requiring that employee contributions be matched by employer (taxpayer) contributions dollar-for-dollar. Importantly, such funds are invested on the open market and do not leave taxpayers with the bill should markets crash or pension administrators misjudge returns, life expectancy or retirement rates.

Politicians have avoided making this tough decision and taking decisive action over fear of a bureaucratic backlash. With an aging population and young taxpayers facing a massive unfunded liability, it is critically important that some of the fiscal pressure placed upon them be released.

Recommendation: Replace the Public Service "defined-benefit" pension plan with an RRSP-style "defined-contribution" plan for all new employees in addition to limiting salary increases.

Section IV: Avoiding EI Tax Hike

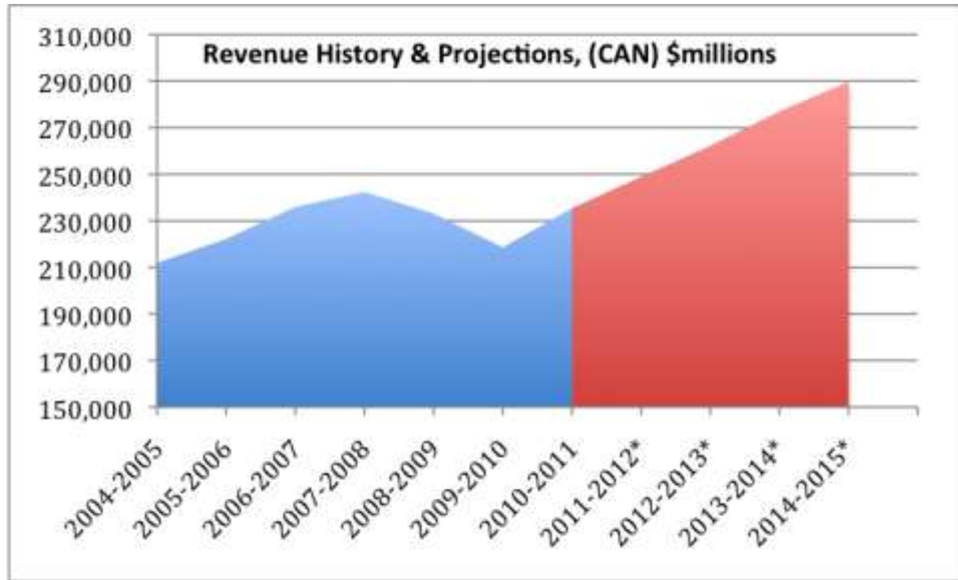
Holding the Line on Taxes

The refrain that 'today's deficits are tomorrow's taxes' is at the core of the CTF's long-standing opposition to deficit financing. Monies borrowed today must be repaid at some point in the future. Governments that find themselves unable to repay borrowed money will inevitably find themselves in the company of Greece and Ireland. In addition to cutting spending, these countries find themselves in a position of financial desperation requiring that taxes be raised.

The Minister of Finance and Prime Minister have both made clear that under no circumstances will they agree to hiking taxes or rolling-back scheduled cuts to business taxes. This statement overlooks the fact that the government is hiking EI payroll taxes to accommodate for new programs under the guise of insurance. Despite the inconsistency of allowing EI payroll taxes to increase, the government has shown a commitment to resisting opposition calls for hikes to everything from business taxes to the GST as well as new taxes on financial transactions and carbon. In order for the government to stand by its commitment to not raise taxes (again, taking exception with a hike in EI premiums), cuts in spending – as described above – are required.

Recovery in Revenues

PBO estimates that government revenues will in 2010-11 have recovered to 2008-09 levels; while 2012-13 will see revenues grow to all-time record levels at $248.9 billion, continuing to increase at an average of 5% annually thereafter.



Public Accounts of Canada & the Office of the Parliamentary Budget Officer[7]

Prevent an EI Tax Hike

In 2008, then Human Resources Minister Monte Solberg made a sound move to make EI a stand-alone, self-financing fund. Unfortunately, this long overdue move was done just ahead of the recession. This change along with higher unemployment and a myriad of new EI spending caused the EI fund to run a deficit. Tax hikes are the government's response to this deficit.

The EI deficit is due in part to the government having added nearly $3 billion in new costs to the program by temporarily extending and increasing benefits, while temporarily adding new training programs. While the government does plan to end the temporary spending, it will not be enough to avoid the EI deficit.

In 2011, the federal government increased EI premiums by a rate of five cents per $100 of earnings for an employee and seven cents for an employer. Finance has claimed that this planned tax hike should be welcomed, as original plans called for an even larger payroll tax hike of 15-cents for employees and 21-cents for employers.

Such an argument is based on the assumption that there are only two choices; tax hikes or a continued deficit in EI. There is another alternative; reform the plan.

EI ought to work like a real insurance program where one pays premiums against times when one needs to draw income between jobs. EI in Canada doesn't work that

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[7] 2003-04 to 2009-10 revenue: Public Accounts of Canada 2010. 2010-11 revenue: Office of the Parliamentary Budget Officer

way. For those in regions with low unemployment, EI is harder to get and pays less for shorter periods of time. It also funds many programs other than income replacement.

In 2008-09, EI paid out $956 million for skills training; $423 million for job search and counseling services, $246 million for special fishing benefits, $136 million to start self-employed businesses, $87 million in wage subsidies, $49 million in job creation partnerships, $143 million for worker adjustment planning and counseling, $94 million for aboriginal-specific training programs, $56 million to top up work-sharing, $54 million for human resources planning, $38 million for sector councils, $15 million for research on how to better help people find jobs, $1 million for labour market mobility planning and $10 million for youth awareness.

There may be some merit to some of this spending, but it is not 'employment insurance.' It is $2.3 billion of social programming funded by EI premiums. It consumes approximately 12% of premiums every year. Removing only half of this spending from EI would avoid the government's planned tax hike.

Recommendation: Make EI a real insurance program and eliminate non-insurance based EI programs.

Savings: $2.9-billion

Section V: Paying Down Debt

Debt Retirement Act

In 2010-11, interest on the debt will consume 11-cents of every dollar spent by the federal government. This figure is expected to rise to 14-cents by 2012-13 due the increasing size and changing maturation of the debt. In 1995-96 it was 29-cents/per dollar. It is, therefore, imperative that upon returning to balance that the federal government make debt repayment a priority.

Upon returning to budgetary balance in 1997-98, the federal government's annual debt repayments were largely ad-hoc. While commendably paying down $95.6-billion in debt between 1997-98 and 2007-08, significant portions of budgetary 'surpluses' were used for end-of-year spending sprees. In the 11 years of surpluses during this time, annual debt repayments averaged $9.6 billion. At this rate, it would take 58 years to repay the federal debt from 2010-11 levels.

In order to ensure discipline in the repayment of its debt, this report calls upon on the Government of Canada to legally mandate its plan in the form of a *Debt Retirement Act*.

Recommendation: Pass a *Debt Retirement Act* that:

- -Sets concrete targets for minimum annual repayments based on the higher of either a significant nominal amount or 75% of any surplus;
- -Requires that any deviation from established debt repayment targets be approved in a stand-alone bill in Parliament, independent from the budget, fiscal update or any other legislation; and

Taxpayer Protection Act

As politicians in British Columbia can now attest, predicting when a change in tax regimes will spark a backlash is not a science. In that province, imposition of the Harmonized Sales Tax (HST) sparked anger largely because it was announced without a mandate from voters in an election held only weeks before. For many, it was the arrogant way in which the HST was imposed and not the substance of the change itself that was cause for anger.

As the only province with voter initiative and recall legislation, British Columbians were uniquely equipped with the democratic tools necessary to force their government into a referendum on reversing the tax change. Yet for all their success in forcing politicians to listen, it should not have required a massive petition drive

and legal wrangling to give citizens a direct voice in mandating changes to their tax regime.

Until 2003, Ontarians enjoyed – in principle – a shield in the form of the *Taxpayer Protection Act*. This act required that a party elected to government have a direct mandate from voters to raise taxes, shift taxes or run a deficit, or otherwise seek a mandate in a referendum.[xix] While carefully crafted and quality intent, the legislation lacks teeth.

Only months after the election of Dalton McGuinty in 2003, the Premier broke a key election promise not to raise taxes and introduced the 'Ontario Health Premium.' In doing so, the Ontario Liberal government was able to skirt the *Taxpayer Protection Act* by simply amending the legislation.

For federal taxpayers to be shielded from un-mandated tax increases, tax shifts or deficits, a *Taxpayer Protection Act* must be entrenched in the Constitution and require a referendum for repeal or amendment. Putting the act beyond the easy access of politicians will help to ensure that a federal *Taxpayer Protection Act* does not suffer the same fate as Ontario's.

Recommendation: Pass a *Taxpayer Protection Act* that:
- Requires that a party elected to government have a direct mandate from voters to raise taxes, shift taxes or run a deficit, or otherwise seek a mandate in a referendum; and
- Is entrenched in the Constitution.

Section VI: Political Subsidies

Eliminate the Vote Tax

Per-vote subsidies for federal political parties were passed into law in 2003. Since then, all registered federal parties receive an annual subsidy of $2.04 per vote they received from the last election, paid quarterly, and indexed to inflation. The "Vote Tax" is charged almost every time a voter puts a valid X on the ballot.

Each year, political parties rake in approximately $30 million from the Vote Tax, including the Bloc Quebecois – a party dedicated to breaking up the country – which receives $2.765 million a year in Vote Tax revenue.

The Vote Tax is "in addition to" the 60% of election expenses candidates are reimbursed and the 50% of election expenses parties are reimbursed after an election, courtesy of you the taxpayer. There are also the charitable tax credits given to political parties far in excess of those for legitimate charities.

Political parties should receive their funding solely from the voluntary generosity of their supporters. In a poll by Ipsos Reid December 2008, 61% of Canadians opposed the Vote Tax. With this subsidy politicians need bother less to appeal to Canadians for voluntary support of their activities. Instead, they just take tax dollars to fund their negative attacks on each other.

Eliminating the Vote Tax would save $30 million per year.

Recommendation: Eliminate the Vote Tax

Savings: $30 million per year.

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