A Fair Deal for Alberta Taxpayers

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Canadian Taxpayers Federation
Stand Up. Be Heard!

About the Canadian Taxpayers Federation

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The Canadian Taxpayers Federation (CTF) is a federally incorporated, not-for-profit citizen's group dedicated to lower taxes, less waste and accountable government. The CTF was founded in Saskatchewan in 1990 when the Association of Saskatchewan Taxpayers and the Resolution One Association of Alberta joined forces to create a national organization. Today, the CTF has 235,000 supporters nation-wide.

The CTF maintains a federal office in Ottawa and regional offices in British Columbia, Alberta, Prairie (SK and MB), Ontario, Quebec and Atlantic. Regional offices conduct research and advocacy activities specific to their provinces in addition to acting as regional organizers of Canada-wide initiatives.

CTF offices field hundreds of media interviews each month, hold press conferences and issue regular news releases, commentaries, online postings and publications to advocate on behalf of CTF supporters. CTF representatives speak at functions, make presentations to government, meet with politicians, and organize petition drives, events and campaigns to mobilize citizens to affect public policy change. Each week CTF offices send out Let's Talk Taxes commentaries to more than 800 media outlets and personalities across Canada.

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

The CTF is independent of any institutional or partisan affiliations. All CTF staff, board and representatives are prohibited from holding a membership in any political party. In 2018-19 the CTF raised $5.1-million on the strength of 30,517 donations. Donations to the CTF are not deductible as a charitable contribution.

Introduction

Over 60 years, Albertans have paid $650 billion more to Ottawa than we have received back in federal transfers or spending. But we still have politicians outside our province that oppose our development.

This isn't fair.

Albertans now clearly understand that we're not going to get anything from Ottawa or the other provinces if we're not willing to fight for it. Albertans are ready to fight for a fair deal. But we also need to be smart about. With the provincial government's $70-billion debt tab, none of the fair deal proposals give the government a license to increase the burdens on Alberta taxpayers.

The Canadian Taxpayers Federation has analysed the options before the Fair Deal Panel with an eye to improve the province's standing in Canada, while not making bad financial decisions in order to make a political point.

This report will touch on the key issues of fairness for Alberta taxpayers and provide recommendations on how Alberta can get a fair deal in Canada while improving our own finances.

The report is broken into the following sections:

1. Alberta's Contribution to Canada and Canadian Opposition to Alberta's Resource Development

2. Taking on the Unfair Equalization Program

3. Leaving the Canada Pension Plan

4. More Autonomy and Accountability for Albertans

5. Getting Alberta's Own Fiscal House in Order

6. Fair Deal Proposals

Summary of Recommendations

Alberta's Contribution to Canada and Canadian Opposition to Alberta's Resource Development

Recommendation: Continue to challenge Bill C-48 and Bill C-69 and advocate for their elimination. There is no fair deal for Alberta with Bill C-69 and Bill C-48 in force.

Recommendation: Continue to push the federal government to remove its unconstitutional carbon tax and continue to fight Ottawa's carbon tax.

Taking on the Unfair Equalization Program

Recommendation: Hold equalization referendum as soon as possible.

Recommendation: Seek to begin shrinking the size of the equalization program.

Recommendation: Seek the removal of non-renewable resource revenues from the equalization formula.

Leaving the Canada Pension Plan

Recommendation: Withdraw from the Canada Pension Plan and allow Albertans to save for our retirement the way we see fit (do not replace the CPP with any forced retirement system).

Recommendation: If the government is going to mandate a savings plan, then follow the principles behind Australia's individual retirement savings account.

More Autonomy and Accountability for Albertans

Recommendation: Seek an exchange of tax points instead of receiving the Canada Health and Social Transfers.

Recommendation: The panel should also consider the economic viability of seeking tax points in exchange for foregoing federal infrastructure spending and if the costs to taxpayers would remain the same (or are lower), the Alberta government should also exchange infrastructure funding for tax points.

Getting Alberta's Own Fiscal House in Order

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

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

- Total spending cuts until the budget is balanced
- Deficits outlawed after fiscal year 2022
- Financial penalties for MLAs if the budget is not balanced (after fiscal year 2022)
- Limit spending growth to population plus inflation (after budget is balanced)
- Debt repayment schedule

[1] For more information on specific ways to achieve spending reductions see the Canadian Taxpayers Federation's 2020 Alberta pre-budget submission: http://www.taxpayer.com/media/CTF_AB_Pre-Budget_Submission.pdf

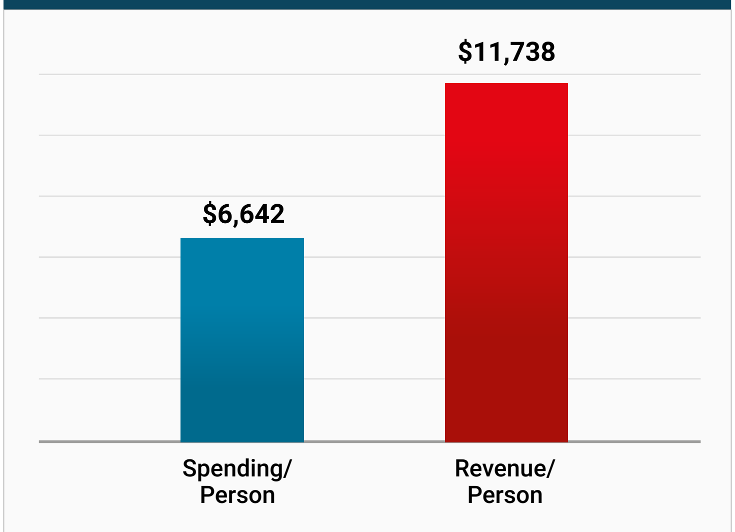
Alberta's Contribution to Canada and Canadian Opposition to Alberta's Resource Development

Alberta has made an over-sized contribution to Canada. Over 60 years, Albertans have paid $650 billion more to Ottawa than received back in federal transfers or spending.[2]

According to the Library of Parliament, the federal government collected $5,096 more per person from Albertans on average in 2017 than its per person spending (Figure 1).[3] In dollar terms, it meant the feds collected $21.6 billion more from Albertans in 2017 than was spent here.

Figure 1

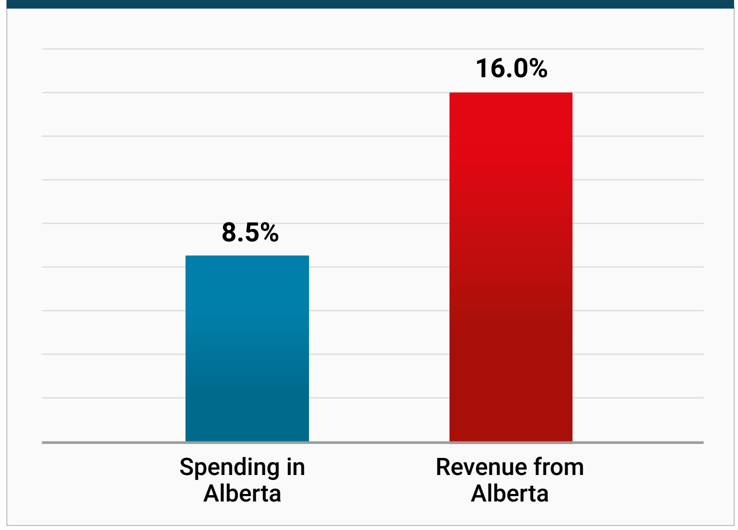
Per person federal revenues vs. spending (2017, Alberta)



As Figure 2 illustrates, the federal government collected 16 per cent of its revenue from Albertans, but only spent 8.5 per cent of its budget in Alberta.[4]

Figure 2

Federal revenue from Alberta vs. Federal spending in Alberta (2017)



As Figure 3 shows, the feds spent less per-person in Alberta on goods and services than in any other province. According to the Library of Parliament, this type of spending "covers basic government activities – the salaries of public servants, the day-to-day operation of government departments, and military installations and operations. It also includes the purchase of supplies and materials."[5]

[2] Jack Mintz, Why Albertans are pondering the nuclear option of separation," 2020, https://business.financialpost.com/opinion/jack-mintz-why-albertans-are-pondering-the-nuclear-option-of-separation

[3] Sirina Kerim-Dikeni, "Distribution of Federal Revenues and Expenditures by Province," Library of Parliament 2018, https://lop.parl.ca/sites/PublicWebsite/default/en_CA/ResearchPublications/201701E#show/hide

[4] Total federal revenue and spending from Budget 2019: https://www.budget.gc.ca/2019/docs/plan/budget-2019-en.pdf

[5] Sirina Kerim-Dikeni, "Distribution of Federal Revenues and Expenditures by Province," Library of Parliament 2018, https://lop.parl.ca/sites/PublicWebsite/default/en_CA/ResearchPublications/201701E#show/hide

Figure 3

Federal per person spending on goods and services in the provinces (2017)

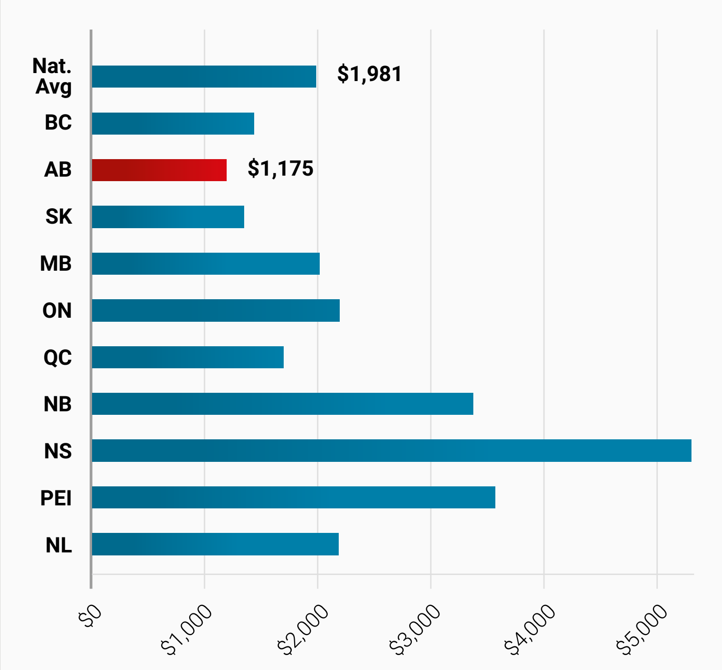
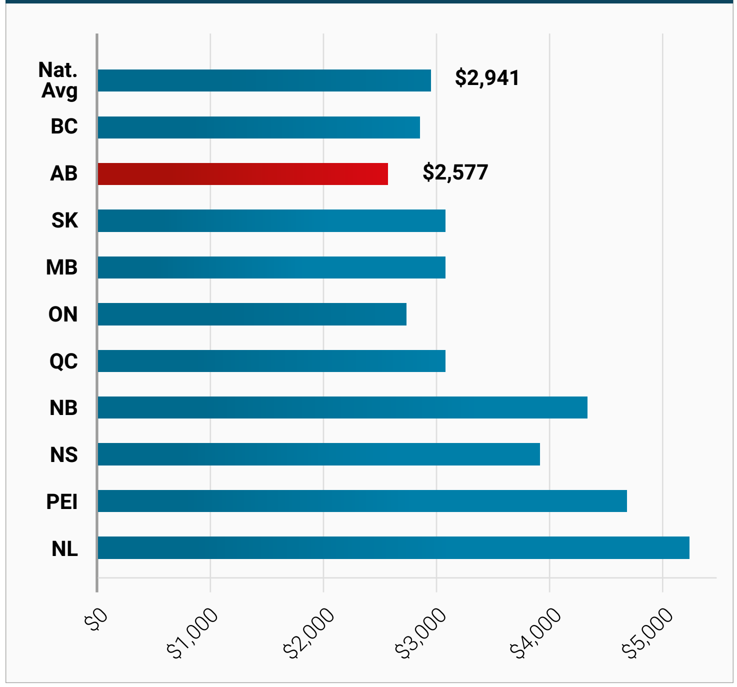


Figure 4

Federal transfers to individuals by province (2017)



Average federal transfers to individuals, such as Canada Pension Plan, Employment Insurance and Old Age Security are also lower in Alberta than in any other province (Figure 4).[6] Between 2008 and 2017 Albertans paid about $28 billion more into CPP than received back in benefits[7] and contributed a net $12.3 billion to EI between 2007 and 2018.[8]

While Alberta doesn't receive the smallest per-person federal transfers – equalization, Canada Health Transfer and Canada Social Transfer – Albertans still receive more than $400 per person below the national average (Figure 5).[9]

[6] Sirina Kerim-Dikeni, "Distribution of Federal Revenues and Expenditures by Province," Library of Parliament 2018, https://lop.parl.ca/sites/PublicWebsite/default/en_CA/ResearchPublications/201701E#show/hide

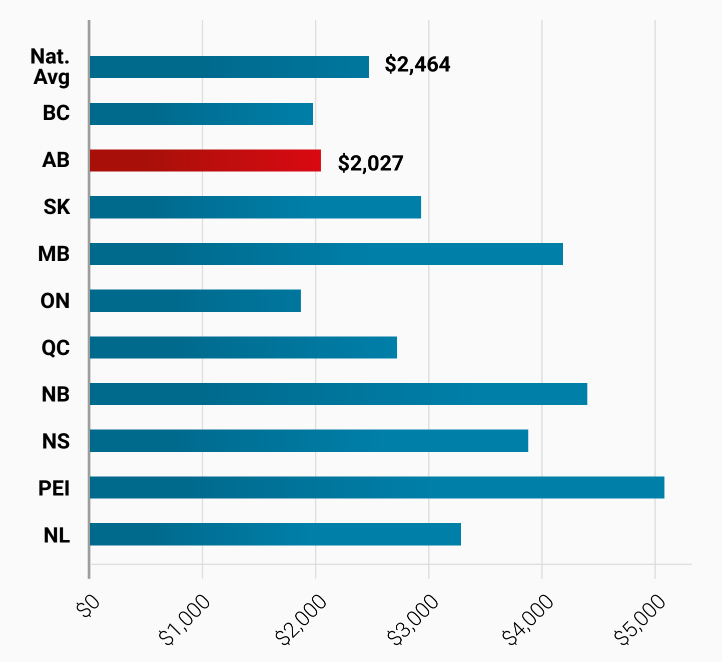
[7] Jason Clemens, Joel Emes, and Niels Veldhuis, "Albertans Make Disproportionate Contributions to National Programs: The Canada Pension Plan as a Case Study," Fraser Institute 2019, https://www.fraserinstitute.org/sites/default/files/albertans-make-disproportionate-contribution-to-cpp.pdf

[8] Niels Veldhuis and Jason Clemens, "Any 'Fair Deal' for Alberta requires fundamental rethink of fiscal federalism in Canada," Fraser Institute 2020, https://www.fraserinstitute.org/article/any-fair-deal-for-alberta-requires-fundamental-rethink-of-fiscal-federalism-in-canada

[9] Sirina Kerim-Dikeni, "Distribution of Federal Revenues and Expenditures by Province," Library of Parliament 2018, https://lop.parl.ca/sites/PublicWebsite/default/en_CA/ResearchPublications/201701E#show/hide

Figure 5

Federal per person transfer spending by province (2017)



Even during the downturn, Albertans have continued contribute significantly more to federal coffers than we have received back in spending. In 2015, Albertans contributed 63 per cent more in federal tax dollars than other Canadians.[10] Between 2014 and 2017, Albertans still paid more than $92 billion more to Ottawa than the province received back. In fact, without Alberta's contribution in 2017, the federal deficit would have reached $39 billion, more than double the $19 billion deficit that Ottawa actually ran.[11]

Alberta's over-sized contributions to Canada go far beyond inflating Ottawa's coffers. Alberta's entrepreneurial spirit and surging economy helped propel Canada forward for many years. For example, Canada's relatively strong performance during the 2008-09 recession is largely explained by Alberta's economic success. As a 2017 Fraser Institute report explains:

> *"Consider the popular narrative that holds that Canada survived the 2008/09 recession and is thriving in the post-recession years to a greater extent than the United States. If we exclude Alberta from the country's total, the rest of Canada's average real per person annual economic growth is just 1.1 percent since 2010. This compared to 1.2 percent in the United States. In short, Canada's overall superior economic performance relative to the United States in the post-recession era is largely attributable to strong growth in Alberta."*[12]

Alberta's surging economy didn't just benefit people who were born in Alberta. Between 2004 and 2014, Alberta saw more than 270,000 more people move to Alberta than leave the province.[13] This idea is also known anecdotally through the once-frequent statement that Newfoundland's second largest city is Fort McMurray. As the Fraser Institute notes, "almost certainly, the vast majority of these relocations were undertaken for the purpose of pursuing economic opportunities." Without Alberta's high job growth rate, unemployment in Canada would have been substantially higher in nearly every year between 1995 and 2014. If Alberta's job creation rate merely matched Ontario's during that decade and a half, approximately 411,000 fewer Canadian jobs would have been created.[14]

[10] Steve Lafleur, Ben Eisen and Milagros Palacios, "A friend in need: Recognizing Alberta's outsized contribution to confederation," Fraser Institute 2017, https://www.fraserinstitute.org/sites/default/files/a-friend-in-need-recognizing-albertas-outsized-contribution-to-confederation.pdf

[11] Ben Eisen, Steve Lafleur, and Milagros Palacios, "How Albertans Continue to Keep Federal Finances Afloat," Fraser Institute 2019, https://www.fraserinstitute.org/sites/default/files/how-albertans-keep-federal-finances-afloat.pdf

[12] Steve Lafleur, Ben Eisen and Milagros Palacios, "A friend in need: Recognizing Alberta's outsized contribution to confederation," Fraser Institute 2017, https://www.fraserinstitute.org/sites/default/files/a-friend-in-need-recognizing-albertas-outsized-contribution-to-confederation.pdf

[13] Steve Lafleur, Ben Eisen and Milagros Palacios, "A friend in need: Recognizing Alberta's outsized contribution to confederation," Fraser Institute 2017, https://www.fraserinstitute.org/sites/default/files/a-friend-in-need-recognizing-albertas-outsized-contribution-to-confederation.pdf

[14] Steve Lafleur, Ben Eisen and Milagros Palacios, "A friend in need: Recognizing Alberta's outsized contribution to confederation," Fraser Institute 2017, https://www.fraserinstitute.org/sites/default/files/a-friend-in-need-recognizing-albertas-outsized-contribution-to-confederation.pdf

The resource projects that are led by Albertans also create prosperity and government revenue for the rest of Canada. Eliminating the unnatural price differential due to the pipeline deficit alone would result in billions of extra dollars flowing into federal coffers. Based on data from the Parliamentary Budget Officer, the Canadian Taxpayers Federation estimates that the unnatural price differential (resulting from a lack pipeline capacity) could cost all Canadian taxpayers $13 billion in forgone federal revenue between 2013 and 2023.[15] That means the unnatural differential due to a lack of pipelines alone could cost every province and territory at least one new hospital between 2013 and 2023.

In recent years, there's been several large resource projects originating in Alberta that would have contributed greatly to Canada had they not been significantly delayed or cancelled. The Trans Mountain pipeline expansion project is expected to increase total government revenue by $46.7 billion during construction and the first 20 years of expanded operations.[16] Energy East was expected to generate $33.9 billion in Canadian economic activity, provide 48,700 jobs during construction and 7,900 jobs during operations phase and generate $7.6 billion in total tax revenue for Canada.[17] Northern Gateway and its associated facilities, such as the Kitimat terminal, was expected to create 5,500 person years of on-site employment and an additional 57,200 person-years of employment throughout the Canadian economy and governments were expected to receive an extra $85 million in extra tax revenue every year. Canada's gross domestic product was expected to increase by $270 billion over 30 years.[18] Teck Resource's Frontier project was expected to create 7,000 jobs during peak construction, 2,500 jobs during operations and more than $70 billion in government revenue.[19] All of these projects would have paid significant benefits to Alberta and the rest of Canada. And unfortunately, these projects have been severely impacted by Canada's political, legal and regulatory system. According to SecondStreet.org, Canada is losing out on $213 billion worth of stalled or cancelled natural resource projects since 2014.[20]

Unfortunately, federal legislation such as Bill C-69 and Bill C-48 will only exacerbate the issues facing Alberta's development. As Premier Jason Kenney has rightly asserted, "Bill C-48 is a prejudicial attack on Alberta, banning from Canada's northwest coast only one product – bitumen – produced in only one province, Alberta."[21]

Bill C-69 may also prove disastrous for Alberta. "It is difficult to imagine that a new major pipeline could be built in Canada under the Impact Assessment Act (Bill C-69)," explained Chris Bloomer head of the Canadian Energy Pipeline Association.[22]

Moving forward, the province must continue to challenge the federal government on its policies which could significantly hamstring our future development, including Bill C-69 and Bill C-48. Put simply, there is no fair deal for Alberta if we are forced to continue to make an over-sized contribution to Ottawa while legislation directly limits our own development.

[15] Canadian Taxpayers Federation, "Taxpayers are losing billions due to a lack of pipelines," 2019, http://www.taxpayer.com/media/Methodology_Taxpayers_are_losing_billion_due_to_a_lack_of_pipelines.pdf

[16] Trans Mountain, "Project Benefits," https://www.transmountain.com/benefits

[17] Canadian Energy Research Institute, "An Economic Analysis of TransCanada's Energy East Pipeline Project, 2014, https://ceri.ca/assets/files/Study_140%20_Full_Report.pdf

[18] David Emerson, "The Northern Gateway: Moving Canadian Energy to Pacific Markets," Policy Options 2010, http://archive.irpp.org/po/archive/oct10/emerson.pdf

[19] Teck Resources, "Frontier project," https://www.teck.com/operations/canada/projects/frontier-project/frontier-project

[20] SecondStreet.org, "Major projects, major stalls," 2020, https://www.secondstreet.org/2020/02/28/major-projects-major-stalls/

[21] Alberta government, "Bills C-48, C-69: Statement from Premier Kenney," 2019, https://www.alberta.ca/release.cfm?xID=64091D3FB5CCD-04E7-4253-20AA82F7F9FA47A2

[22] Chris Varcoe, "Pipeline industry blasts project review process, says it 'doubles down' on existing problems," Calgary Herald 2018, https://calgaryherald.com/business/local-business/varcoe-new-federal-rules-to-review-pipelines-sparks-battle-with-industry

The province must also continue to push back against the carbon tax, which Albertans have consistently opposed, and the province's top court found to violate the constitution by substantially stepping on Alberta's legitimate jurisdiction over natural resources. In paragraph 22, the Alberta Court of Appeal makes it clear why the Alberta government must continue to challenge Ottawa's carbon tax:

> *"The Act is a constitutional Trojan horse. Buried within it are wide ranging discretionary powers the federal government has reserved unto itself. Their final shape, substance and outer limits have not yet been revealed. But that in no way diminishes the true substance of what this Act would effectively accomplish were its validity upheld. Almost every aspect of the provinces' development and management of their natural resources, all provincial industries and every action of citizens in a province would be subject to federal regulation to reduce GHG emissions. It would substantially override ss 92A, 92(13) and 109 of the Constitution."*[23]

Recommendation: Continue to challenge Bill C-48 and Bill C-69 and advocate for their elimination. There is no fair deal for Alberta with Bill C-69 and Bill C-48 in force.

Recommendation: Continue to push the federal government to remove its unconstitutional carbon tax and continue to fight Ottawa's carbon tax.

[23] Court of Appeal of Alberta, Reference re Greenhouse Gas Pollution Pricing Act, 2020 ABCA 74, 2020, https://www.canlii.org/en/ab/abca/doc/2020/2020abca74/2020abca74.pdf

Taking on the Unfair Equalization Program

Trying to get a fair deal for Alberta without challenging equalization is like swinging for the fence and then running straight to second base without even glancing at first. There is no fair deal for Alberta without changes to equalization and this needs to be reflected in the panel's final report.

Alberta Premier Jason Kenney commissioned the Fair Deal Panel to consult Albertans on how our province can get a better deal in the federation. The panel was tasked with looking into nine specific measures ranging from starting our own provincial pension plan to establishing an Alberta constitution. But none of these nine measures includes equalization. In fact, the word equalization isn't even mentioned in the panel's mandate letter.[24]

But equalization should be front and centre to find a fair deal for Alberta.

Equalization is only one part of the wider federal transfer issue. But through equalization, Albertans directly subsidize politicians who seem to take pride in blocking our development. Not to mention, the last cent we received from the program was more than five decades ago. And we can make progress on equalization by forcing the feds to the negotiation table by holding a provincial referendum.

Fortunately, there is flexibility within the panel's mandate. While equalization isn't a specific focus, the panel's "recommendations may extend beyond these concepts, and may include government platform commitments."[25]

The panel should recommend action on equalization this year. That's because there is no fair deal for Albertans while we continue to give more and more money to politicians who refer to our oil as "dirty energy" and continue to oppose our development. There is no fair deal for Alberta without changes to equalization.

The rest of this section will provide a short history of equalization, the cost and growth of the program, issues with resource revenues in the formula, the unintended consequences of equalization and will conclude with how the Alberta government should proceed against equalization.

Short history of equalization

The equalization program was adopted in 1957 and the original formula only included three provincial revenue sources: income taxes, corporate taxes and succession duties.

Changes in the 1960s would have major implications for Albertans. The number of revenue sources expanded to 16 and included 50 per cent of non-renewable resource revenues (NRRR), such as oil and gas royalties. There was also a move to a 10-province formula from the original two-province formula that used British Columbia and Ontario as baselines for the program. Combined, these reforms pushed Alberta out of "have-not" status and increased the size of the equalization-pie paid to recipient provinces by almost 50 per cent.[26]

By the end of the 1970s, with decreasing energy prices and a ballooning federal deficit, Ottawa needed to reduce the size of equalization. This was achieved by adopting the five-province standard in 1982, which excluded the richest province (Alberta) and the four poorest provinces (Prince Edward Island, Newfoundland and Labrador, Nova Scotia and New Brunswick).

[24] Premier Jason Kenney, Fair Deal Panel Mandate Letter, 2019, https://www.alberta.ca/external/news/letter-from-premier-to-panel.pdf

[25] Premier Jason Kenney, Fair Deal Panel Mandate Letter, 2019, https://www.alberta.ca/external/news/letter-from-premier-to-panel.pdf

[26] Ted Morton, "Referendum Time?" C2C Journal 2018, https://c2cjournal.ca/2018/04/screwing-the-west-to-pay-the-rest/.

In the 2000s, the federal government again increased the size of the equalization-pie by dropping the five-province standard and bringing Alberta – and our rich oil and gas revenues – back into the equation. Side deals were also made with Newfoundland and Labrador and Nova Scotia to exclude NRRR from their fiscal capacity. Ottawa also introduced a $10-billion floor, meaning the size of equalization would not be reduced below this point regardless of what the formula might dictate.

In 2009, the government tied the annual growth of equalization to GDP growth. This move was intended to limit the growth of equalization, i.e., equalization could not grow faster than the national economy grew. However, because of the reduced disparity between rich provinces and poorer provinces in recent years, this policy has actually increased equalization payments. In fact, over the past two years, this rule has had the effect of increasing program costs by $2.1 billion or 5.7 per cent.[27]

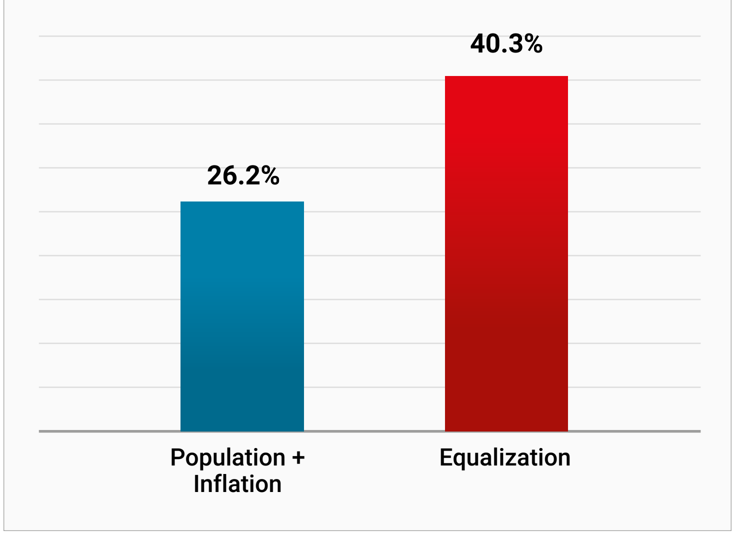
As the history of equalization shows, there's significant precedents for changing the size and overall structure of the program.

Cost and growth of equalization: Equalization has increased by 14,689 per cent!

Equalization has grown by nearly $6 billion, or 40 per cent, over the last decade.[28] As figure 6 illustrates, this far outpaced the increase in inflation plus population growth which was 26 per cent.[29]

Figure 6

Equalization vs. inflation plus population growth since 2011



While today's equalization program has grown to $20 billion, when it was first adopted in 1957 the program cost was $139 million. That means the equalization program has grown by a staggering 14,689 per cent in a little over six decades.[30]

As Figure 7 displays, the increase in equalization has outpaced the increased in total federal spending since 1959 (earliest year that data is available in budget 1968, which is the oldest budget in the government's online archives).[31]

[27] Ben Eisen, Steve Lafleur, Jake Fuss, and Tegan Hill, "Why Is Equalization Still Growing?" Fraser Institute 2019, https://www.fraserinstitute.org/sites/default/files/why-is-equalization-still-growing.pdf

[28] Government of Canada, "Major federal transfers," https://www.canada.ca/en/department-finance/programs/federal-transfers/major-federal-transfers.html

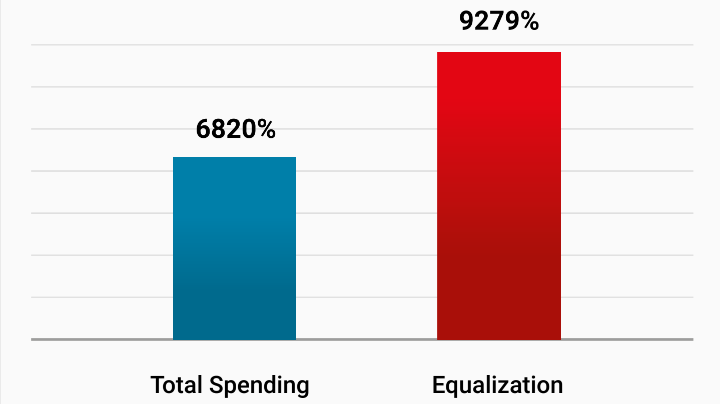
[29] Population growth 2011-2019: https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=1710000501#timeframe; Population 2020 used Q4 2019: https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=1710000901; Inflation calculation used Stats Canada CPI: https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=1810000413#timeframe

[30] Government of Canada, "Historical Transfer Tables," https://open.canada.ca/data/en/dataset/4eee1558-45b7-4484-9336-e692897d393f

[31] Equalization figures: https://open.canada.ca/data/en/dataset/4eee1558-45b7-4484-9336-e692897d393f; Total spending 1959 figures: https://www.budget.gc.ca/pdfarch/1968-sd-eng.pdf; Total spending 2020: https://www.budget.gc.ca/2019/docs/plan/budget-2019-en.pdf

Figure 7

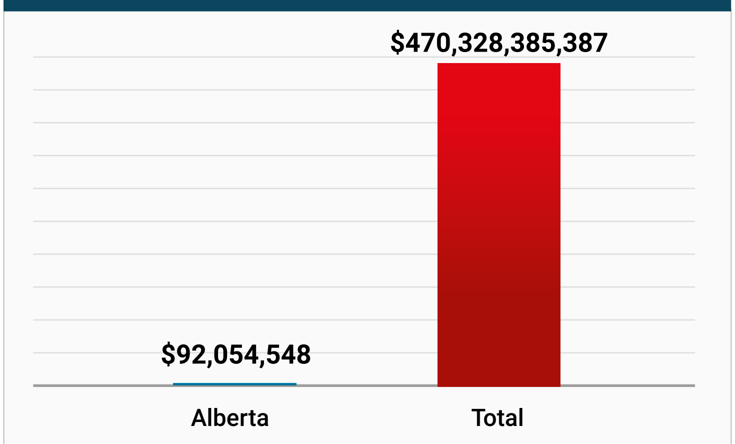
Growth in equalization vs. growth in total federal spending since 1959



While equalization is expected to cost $20.6 billion in 2020 alone, Alberta has only received $92 million from the program, with the last payment ($1 million) occurring in 1964. In contrast, the total equalization payments since its inception has been $470 billion (Figure 8).

Figure 8

Equalization payments to Alberta vs. total payments



That means Alberta has received less than 0.02 per cent of all equalization payments while being a major contributor into the program.[32] In fact, former Alberta finance minister Ted Morton estimates that equalization cost Alberta taxpayers $3 billion in 2018 alone.[33] The Fraser Institute estimates that of the $158.3 billion paid out in equalization payments from 2008 to 2017, approximately $28.1 billion came from Alberta.[34]

Resource revenue[35]

When equalization was first adopted in 1957, resource revenues were not included in the formula. Non-renewable resource revenues, which includes oil and gas royalties, have been the matter of serious debate for decades and their role in the equalization formula has been changed several times over the decades. NRRR was first added to the equalization formula in 1962, the feds then fiddled with the treatment of resource revenues eight times for the next two decades,[36] later removed NRRR in 1982 and it was finally halved in 2007.[37] As illustrated, there is nothing stopping the federal government – other than a lack of political will – from removing NRRR from the equalization program.

A key issue of fairness is the fact that NRRR is included in the equalization formula while revenues from hydro-electricity are exempt. In the first place, NRRR should not be considered as part of a province's "fiscal capacity" as these revenues are not the same as taxes that can be collected year after year.

Former Alberta finance minister Ted Morton elegantly explains the issue with including NRRR in the equalization formula while other forms of renewable energy revenues remain exempt:

[32] Government of Canada, "Major federal transfers," https://www.canada.ca/en/department-finance/programs/federal-transfers/major-federal-transfers.html

[33] Ted Morton, "Equalization payments have always been about keeping Quebec happy," School of Public Policy, https://www.policyschool.ca/news/morton-equalization-payments-have-always-been-about-keeping-quebec-happy/

[34] Steve Lafleur, Ben Eisen and Milagros Palacios, "A friend in need: Recognizing Alberta's outsized contribution to confederation," Fraser Institute 2017, https://www.fraserinstitute.org/sites/default/files/a-friend-in-need-recognizing-albertas-outsized-contribution-to-confederation.pdf

[35] While this submission will not focus on potential constitutional issues associated with the inclusion of NRRR in equalization, this should be considered by the panel. For a primer on this issue see: Ken Boessenkool, "Ten Reasons to Remove Nonrenewable Resources from Equalization," AIMS 2000, https://www.iedm.org/files/011025boessenkoolpaper.pdf

[36] Ken Boessenkool, "Ten Reasons to Remove Nonrenewable Resources from Equalization," AIMS 2000, https://www.iedm.org/files/011025boessenkoolpaper.pdf

[37] Ted Morton, "Referendum Time?" C2C Journal 2018, https://c2cjournal.ca/2018/04/screwing-the-west-to-pay-the-rest/.

"The sale of a barrel of oil is a one-off event, never to be repeated. The sale of a megawatt of hydro is repeated hour after hour, day after day, year after year, as long as the rivers keep flowing and the turbines keep turning. This makes hydro closely analogous to provincial tax bases in a way that oil and gas royalties clearly are not."[38]

It should also be noted that including volatile NRRR in the formula can lead to high-income provinces receiving equalization payments, which goes against the intent of the program to help lower income provinces provide better services for their citizens.

"When oil prices spiked during 1970s, the inclusion of Alberta's resource revenues within the formula produced a result that included Ontario [the province with the highest per capita income] among equalization recipients," notes economic policy expert Ken Boessenkool.[39]

Not only does equalization harm Alberta taxpayers by forcing us to pay into a program that we have not received any money from since 1964,[40] we are also forced to provide the funding that encourages politicians in other provinces to oppose our resource development.

"Equalization itself creates strong disincentives for natural resource development in have-not provinces," explains Ben Eisen of the Fraser Institute. "If a have-not province sees an increase in natural resource revenues, the extra money is largely offset by a reduction in equalization payments.

"In other words, if the government of Quebec encourages natural resource development it bears the full burden of any resulting costs — including, in some instances, environmental or political risks — but receives less than one-third of the fiscal benefits."[41]

These negative incentives have been well known for a long time, especially among politicians in equalization-receiving provinces.

Under former premier Pauline Marois, Quebec's government imposed a moratorium on shale gas exploration in the St. Lawrence Lowlands.[42]

"If one day, we produce oil and gas in Quebec, why would we let half of this wealth go down the road to Ottawa?" asked Marois in a video on Parti Québécois' website.

In 2018, the Quebec government announced a series of new measures that would ban fracking for shale gas province-wide and tighten oil and gas drilling.[43] These limits were imposed despite the existence of up to 36 trillion cubic feet of recoverable natural gas in the St. Lawrence that is estimated to be worth between $68 billion and $186 billion.[44] Nova Scotia also placed a ban on development which limits most of the province's onshore natural gas resources pegged to be worth between $20 billion and $60 billion.[45]

Without the negative incentive to oppose resource development that occurs through equalization, politicians in other provinces would be more likely to develop their own natural resources and stop opposing projects crucial to Alberta's development.

[38] Ted Morton, "Referendum Time?" C2C Journal 2018, https://c2cjournal.ca/2018/04/screwing-the-west-to-pay-the-rest/.

[39] Ken Boessenkool, "Ten Reasons to Remove Nonrenewable Resources from Equalization," AIMS 2000, https://www.iedm.org/files/011025boessenkoolpaper.pdf

[40] MLA Drew Barnes in Licia Corbella, "Quebec gets $1.4B more of our money. In return, Alberta gets kicked," https://calgaryherald.com/news/local-news/corbella-quebec-gets-1-4b-more-of-our-money-in-return-alberta-gets-kicked

[41] Ben Eisen, "Hampering resource development makes it harder for Quebec to end reliance on equalization," Fraser Institute 2018, https://www.fraserinstitute.org/blogs/hampering-resource-development-makes-it-harder-for-quebec-to-end-reliance-on-equalization

[42] Natural Resources Canada, "Quebec's shale and tight resources," https://www.nrcan.gc.ca/our-natural-resources/energy-sources-distribution/clean-fossil-fuels/natural-gas/shale-and-tight-resources-canada/quebecs-shale-and-tight-resources/17714

[43] Jillian Kestler-D'Amours, "Quebec to ban shale gas fracking, tighten rules for oil and gas drilling

[44] Social Sharing," CBC 2018, https://www.cbc.ca/news/canada/montreal/quebec-fracking-ban-1.4694327

[45] Paul Withers, "N.S. urged to revisit fracking ban as report pegs onshore natural gas at $20B or more," CBC 2018, https://www.cbc.ca/news/canada/nova-scotia/nova-scotia-onshore-natural-gas-estimates-released-1.4479368

Furthermore, including NRRR in the equalization formula act as a way of double-counting the fiscal capacity of a province. That's because the benefits from NRRR are already counted in the form of higher wages and prices through the economy.

"Higher wages and housing prices reflect the additional fiscal capacity that results from the discovery and exploitation of non-renewable resources," explains Boessenkool. "And since tax bases such as personal income and housing stock are included in the equalization formula, natural resource revenues do not need to be."

Boessenkool notes that this is often cited as the reason why the United States has no equivalent of Canada's equalization program despite differences in fiscal capacities across the states.

"The predominant U.S. view is that differences in fiscal capacities across states are reflected (or capitalized) in differences in wages and other prices such as property values, and therefore equalization is unnecessary," concludes Boessenkool.[46]

Negative Impacts

The above section outlines how including resource revenues in equalization can create negative incentives that discourage resource development among politicians who are receiving equalization cheques. But the negative impacts of equalization go beyond discouraging resource development by encouraging equalization-receiving provinces to reduce their focus on growing their own economies.

As Morton has identified:

> *"For these self-inflicted economic wounds, Quebec was rewarded with increased Equalization payments, which soared from $240 million/year in 1970 to over $3 billion by the early 1980s … The election of high tax/high benefits/high regulation governments seems to coincide with poorer economic outcomes, which in turn qualifies the province for equalization payments."*[47]

Equalization also creates a greater incentive for higher taxes, which punishes the workers and businesses trying to grow the economy. That's because higher taxes can reduce the tax base and therefore increase equalization payments.[48]

While encouraging politicians to implement bad anti-growth policies, equalization also encourages people to stay put in poorer regions, which in turn rewards politicians for their bad policy decisions. Rather than having to grow the economy to provide government services which attracts and retains citizens, politicians can rely on equalization payments to provide the services. In this way, equalization reduces competition among provincial governments to deliver the best governance for their citizens.

In this vein, Morton explains how equalization encourages people to stay in a province even though their politicians have implemented bad policies:

> *"There is the risk that once equalization (and other forms of transfer) payments pour into a poorer, 'have-not' province, they may be used to induce residents to remain there – under- or unemployed, but kept afloat by generous EI, welfare, health, child-care, post-secondary education and housing benefits."*[49]

The authors of *Fiscal Federalism and Equalization Policy in Canada*,[50] call this phenomenon the "welfare trap," and it's easy to see how this can negatively impact equalization-receiving provinces. But, this effect also impacts the growth of "have"

[46] Ken Boessenkool, "Ten Reasons to Remove Nonrenewable Resources from Equalization," AIMS 2000, https://www.iedm.org/files/011025boessenkoolpaper.pdf

[47] Ted Morton, "Referendum Time?" C2C Journal 2018, https://c2cjournal.ca/2018/04/screwing-the-west-to-pay-the-rest/.

[48] Ben Eisen, Steve Lafleur and Jake Fuss, "The real problems with equalization, Fraser Institute 2018, https://www.fraserinstitute.org/blogs/the-real-problems-with-equalization

[49] Ted Morton, "Referendum Time?" C2C Journal 2018, https://c2cjournal.ca/2018/04/screwing-the-west-to-pay-the-rest/.

[50] Daniel Béland , André Lecours , Gregory P. Marchildon , Haizhen Mou and M. Rose Olfert, "Fiscal Federalism and Equalization Policy in Canada," University of Toronto Press 2017.

provinces (over and above the amount that "have" provinces pay into the program). As the authors explain, because people are encouraged to remain in anti-growth jurisdictions, "regions with higher labour productivity may then experience labour shortages, a labour is instead attracted to places with lower costing public services." Labour shortages were a key issue facing Alberta's business community during the booms years and could again be a significant concern in the future.

Taking on equalization may never be a political breeze in Canada, but there are some provinces on the receiving end that are now receptive to change. Both New Brunswick Premier Blaine Higgs[51] and Quebec Premier François Legault[52] have acknowledged the issues with relying on equalization and that the right path forward for "have-not" provinces is to focus less on equalization and more on growing the economy.

In addition to the negative incentives brought by equalization, it should be noted that the fundamental principle behind equalization – an attempt to equalize services across provinces – can't be met by the means through which equalization tries to reach its objective – throwing more tax dollars at a problem. As the Alberta government has made evidently clear, spending more tax dollars doesn't result in better outcomes.

The Alberta government is a high spending provincial government, but in many important instances, Albertans do not receive the best quality of services from their government.

"The panel found that Alberta's spending per capita is the highest in Canada and has consistently been higher than the average of the 10 provinces over the last 25 years," reads the Blue Ribbon Report on Alberta's finances.[53] "In some key areas, in spite of the higher levels of funding, the results achieved are no better and, in some cases, worse than in other provinces."

Take health care for example. Alberta is the youngest province,[54] we spend more per person on health care than every other province except Newfoundland and Labrador[55] and we outspend each Ontarian by about $1,000 every year (per person basis), but we don't get the best health care results.

"[Alberta's health care] outcomes are no better and are often worse than comparable provinces … Albertans wait an average of 26 weeks [from referral by a general practitioner until they receive treatment], more than 10 weeks longer than in Ontario which has the shortest wait times," noted the Blue Ribbon Panel.[56]

As Alberta clearly demonstrates, the equalization program will always struggle to reach its objective because more tax dollars thrown at a problem doesn't mean better results.

Furthermore, the federal government will always struggle to equalize provincial programs because these programs inherently fall outside the scope and jurisdiction of the federal government. This point is made abundantly clear by Morton:

> *"There is the problem of policy jurisdiction. Virtually all of these social services fall under the exclusive jurisdiction of the provinces and cannot be dictated or 'equalized' by Ottawa. That's why the Equalization program currently gives each 'have-not' province a blank cheque with the intent (i.e. the hope) that the funds will be used for topping up 'under-funded' benefit programs. But there is no guarantee, because there cannot be. These are all provincial matters."*[57]

[51] BC News, "Ottawa should cut equalization to force provinces to develop resources, Higgs says," 2018, https://www.cbc.ca/news/canada/new-brunswick/nb-higgs-equalization-pipeline-1.4953187

[52] Calgary Herald, "Equalization, hockey are two of Legault's favourite things about Canada," 2019, https://calgaryherald.com/pmn/news-pmn/canada-news-pmn/legault-cites-equalization-hockey-as-reasons-to-be-proud-canadian/wcm/de2f0b53-9abf-417e-8a22-f9f73bf38e8f

[53] Blue Ribbon Panel, "Report and Recommendations," 2019, https://open.alberta.ca/dataset/081ba74d-95c8-43ab-9097-cef17a9fb59c/resource/257f040a-2645-49e7-b40b-462e4b5c059c/download/blue-ribbon-panel-report.pdf

[54] Tavia Grant and Jeremy Agius, "Census 2016: The growing age gap, gender ratios and other key takeaways," Globe and Mail, https://www.theglobeandmail.com/news/national/census-2016-statscan/article34882462/

[55] Bacchus Barua, Jason Clemens, and Taylor Jackson, "Health Care Reform Options for Alberta," Fraser Institute 2019, https://www.fraserinstitute.org/sites/default/files/health-care-reform-options-for-alberta.pdf

[56] Blue Ribbon Panel, "Report and Recommendations," 2019, https://open.alberta.ca/dataset/081ba74d-95c8-43ab-9097-cef17a9fb59c/resource/257f040a-2645-49e7-b40b-462e4b5c059c/download/blue-ribbon-panel-report.pdf

[57] Ted Morton, "Referendum Time?" C2C Journal 2018, https://c2cjournal.ca/2018/04/screwing-the-west-to-pay-the-rest/

Since its inception in 1957, equalization has grown by 14,689 per cent with more than $470 billion being spent in this program. But nobody can say for sure whether it's harmed or helped Canada. In fact, decades of economic analysis can neither prove nor disprove the alleged benefits or unintended harms of the equalization program.[58]

Action on Equalization

To put it simply, there is no fair deal for Albertans without changes to equalization. This needs to be a central focus of the Fair Deal Panel's report to Alberta government.

The Alberta government can force the federal government and provinces to the negotiating table by holding a provincial referendum.

In the 1990s, the Supreme Court of Canada, faced with the Quebec separation referendum, ruled that a provincial referendum on a proposed amendment to the Constitution with a clear majority result on a clear question would obligate the federal government to negotiate in good faith.

As Morton explains, "While this rule was laid down in the context of the 1995 Quebec referendum to secede from the rest of Canada, the court went out of its way to phrase its ruling in terms that apply equally to a referendum in any province to amend the Constitution."[59]

A referendum must be held as soon as possible.

Kenney has already promised to hold a referendum on equalization in 2021, but he has since backtracked on initial promises. In 2017, Kenney promised a referendum *if* the federal government forced its carbon tax on Albertans.[60] He now says he'll hold the referendum *if* there is no progress on a pipeline and legislation that will block further pipeline development.[61] But Kenney should be taking on the equalization program regardless of what happens with carbon taxes or pipelines. Also, Albertans shouldn't be left to deal with the current unfair equalization program for nearly two more years before there's any real movement on equalization.

An equalization referendum must be held, with the question asking whether Albertans believe that equalization should be removed from the Constitution. During negotiations, the Alberta government should seek (as the primary goal) to begin shrinking the size of the equalization program and (as a secondary goal) to remove non-renewable resource revenues from the formula.

Recommendation: Hold equalization referendum as soon as possible.

Recommendation: Seek to begin shrinking the size of the equalization program.

Recommendation: Seek the removal of non-renewable resource revenues from the equalization formula.

[58] Ted Morton, "Referendum Time?" C2C Journal 2018, https://c2cjournal.ca/2018/04/screwing-the-west-to-pay-the-rest/

[59] Ted Morton, "Let Albertans vote to end equalization during spring election," Calgary Herald 2018, https://calgaryherald.com/opinion/columnists/opinion-let-albertans-vote-to-end-equalization-at-same-time-as-spring-election

[60] Devin Horne, "Jason Kenney promises referendum on equalization payments if feds continue to push carbon tax," Global News 2017, https://globalnews.ca/news/3846646/jason-kenney-promises-referendum-on-equalization-payments-if-feds-continue-to-push-carbon-tax/

[61] Alberta Government, "Members, mandate for Fair Deal Panel announced," 2019, https://www.alberta.ca/release.cfm?xID=660703586B9AE-F7E2-CD86-7AB592226325179E

Leaving the Canada Pension Plan

The last thing Alberta taxpayers need is another pension Ponzi scheme, but that's exactly what taxpayers can expect if the provincial government recreates the Canada Pension Plan in Alberta without fundamentally over-hauling it.

As Premier Jason Kenney has acknowledged, "a compelling case can be made for such a shift [away from the CPP]."[62] That's because Alberta taxpayers have contributed more than their fair share to the CPP. Between 2008 and 2017 we paid about $28 billion more into the CPP than we received back in benefits, according to a 2019 Fraser Institute report.[63]

Alberta's over-sized contributions to the Canada Pension Plan specifically took off beginning in 1999. In 1999, Alberta's net contributions (contributions to the CPP over-and-above payments from the CPP) to the CPP were $149 million. Alberta's net contributions since 1999 have followed a clear trend upwards, reaching a peak of $3.1 billion in 2015 and totalling $2.9 billion in 2017 (most recent data was available). This period goes hand-in-hand with the CPP contribution increase which was enacted in 1997 and hiked contribution rates from 5.6 per cent in 1996 to 9.9 per cent in 2003.[64]

An internal analysis from crown corporation AIMCo, the Alberta Investment Management Corporation, concluded that Albertans could see a 27 per cent tax savings from a provincial plan while still receiving the same benefits as from the CPP.

"The reduction in the payroll tax would encourage employers to hire more workers and provide some tax relief for workers, especially those with lower incomes," explained economist Jack Mintz in Nov. 2019.[65]

Reductions in pension payroll taxes would result in tangible benefits for working Albertans. As University of Calgary professor Tom Flanagan explains, "every one percentage-point drop that an APP could deliver would leave more than $500 per year in the pocket of every employee paying under maximum pensionable earnings."[66]

Based on Alberta's disproportionate contribution to the CPP, the Fraser Institute calculated that contribution rates in the rest of Canada would have to increase from 9.9 to 10.6 per cent if Alberta withdrew from the national plan. Even if Alberta's contributions were to diminish and converge with that of the rest of the provinces, the CPP rate would still have to increase to 10.3 per cent to remain sustainable if Alberta left the national plan.[67]

Issues with the CPP model

Although withdrawing from the CPP has economic merit for Alberta, the province shouldn't merely recreate the CPP. That's because the CPP has a key fundamental problem: it better resembles a Ponzi scheme than your typical investment fund.

"There's an assumption that the money one pays into the CPP is going to fund their own personal retirement, as is the case with private pension plans," explain Charles Lammam and Hugh MacIntyre of the Fraser Institute.[68] "But this is largely not the case because … most of the contributions you make today fund someone else's retirement."

[62] Andy Blatchford, "Alberta to study 'compelling case' of withdrawing from Canada Pension Plan, Jason Kenney says," Financial Post 2019, https://business.financialpost.com/news/fp-street/alberta-will-study-already-compelling-case-for-its-exit-from-cpp-kenney

[63] Jason Clemens, Joel Emes and Niels Veldhuis, "Albertans Make Disproportionate Contributions to National Programs: The Canada Pension Plan as a Case Study," Fraser Institute 2019, https://www.fraserinstitute.org/sites/default/files/albertans-make-disproportionate-contribution-to-cpp.pdf

[64] Jason Clemens, Joel Emes and Niels Veldhuis, "Albertans Make Disproportionate Contributions to National Programs: The Canada Pension Plan as a Case Study," Fraser Institute 2019, https://www.fraserinstitute.org/sites/default/files/albertans-make-disproportionate-contribution-to-cpp.pdf

[65] Jack Mintz, "An Alberta Pension Plan could be a slam-dunk," Financial Post 2019, https://business.financialpost.com/opinion/jack-mintz-an-alberta-pension-plan-could-be-a-slam-dunk

[66] Tom Flanagan, "The Return of the Alberta Agenda," C2C Journal 2019, https://c2cjournal.ca/2019/11/the-return-of-the-alberta-agenda/

[67] Jason Clemens, Joel Emes and Niels Veldhuis, "Albertans Make Disproportionate Contributions to National Programs: The Canada Pension Plan as a Case Study," Fraser Institute 2019, https://www.fraserinstitute.org/sites/default/files/albertans-make-disproportionate-contribution-to-cpp.pdf

[68] Charles Lammam and Hugh MacIntyre, "Call a spade a spade—CPP payroll tax is a tax," Fraser Institute 2018, https://www.fraserinstitute.org/blogs/call-a-spade-a-spade-cpp-payroll-tax-is-a-tax

The CPP is largely a "pay as you go" investment fund, meaning that contributions paid by today's workers are used to directly fund someone else's retirement. In 2016, the CPP collected $46.5 billion in contributions from Canadian workers and paid out $42.9 billion in retiree and related benefits, leaving a net cash flow for investment or savings of $3.6 billion.[69] That means that less than eight per cent of CPP contributions in 2016 were available for future investments.

The situation we face is that today's Mr. and Mrs. Taxpayer largely fund today's retirees while relying on younger generations, the good faith of future politicians and the health of government finances decades from now to fund their pensions. But there is no legal requirement for a future government to provide pension benefits.[70] That will always be the risk when taxpayers are forced to rely on politicians for their retirement benefits instead of their own savings.

Big debt problems are inherent in this type of pension system; debt problems stem from the CPP model, not the fact that it is a national program or being ran by the federal government. The CPP's unfunded liability as of the end of 2015 was $884 billion.[71] That means it will need to take in hundreds of billions of dollars from new taxpayers to pay the benefits promised to its current members. But isn't that exactly how a Ponzi scheme operates? New recruits finance existing members? Do Albertans really want to replicate this model?

Average rates of return for the CPP have also declined over the decades, which is a partial function of the model. While the investment arm of the CPP has been acknowledged for high returns – annualized rate of return of 10.4 per cent over the decade[72] – it's important to note that the rate of return earned by the CPP's investment arm is not the rate of a return a Canadian retiree will receive.

As illustrated above, because a large component of the CPP is a "pay-as-you-go" system, the CPP's investment arm only invests a small portion of an individual's contributions. The actual returns from the CPP for future retirees are expected to be much smaller than the investment arm's returns. In 2016, the Fraser Institute calculated the real rate of return Canadians actually received from the CPP and forecasted future returns until 2055. As Table 1 illustrates, average real rates of return have been significantly declining.[73]

Table 1

Average real rates of return for the CPP

Period	Return
1967-1969	58.0%
1970-1979	27.5%
1980-1989	15.9%
1990-1999	9.7%
2000-2009	5.8%
2010-2015	3.9%
2015-2019	3.4%
2020-2029	2.8%
2030-2039	2.2%
2040-2049	2.1%
2049-2055	2.1%

There are two simple reasons to explain this declining CPP return. First, retirees in the early years of the CPP only had to contribute to the plan for a short period of time (i.e., the CPP is a Ponzi scheme). Second, the CPP contribution tax rate has been increasing from 3.6 per cent when the CPP first launched in 1966 to 10.5 per cent this year.[74]

[69] Jason Clemens, Joel Emes and Niels Veldhuis, "Albertans Make Disproportionate Contributions to National Programs: The Canada Pension Plan as a Case Study," Fraser Institute 2019, https://www.fraserinstitute.org/sites/default/files/albertans-make-disproportionate-contribution-to-cpp.pdf

[70] Charles Lammam and Hugh MacIntyre, "Call a spade a spade—CPP payroll tax is a tax," Fraser Institute 2018, https://www.fraserinstitute.org/blogs/call-a-spade-a-spade-cpp-payroll-tax-is-a-tax

[71] Office of the Superintendent of Financial Institutions in Canada, "Actuarial Report: 27th on the Canada Pension Plan," 2016, https://www.osfi-bsif.gc.ca/eng/docs/cpp27.pdf

[72] CPP Investments, "Our Performance," https://www.cppinvestments.com/the-fund/our-performance

[73] Jason Clemons and Joel Emes, "Rates of Return for the Canada Pension Plan," Fraser Institute 2016, https://www.fraserinstitute.org/sites/default/files/rates-of-return-for-the-canada-pension-plan.pdf

[74] Jason Clemons and Joel Emes, "Rates of Return for the Canada Pension Plan," Fraser Institute 2016, https://www.fraserinstitute.org/sites/default/files/rates-of-return-for-the-canada-pension-plan.pdf

Next Steps

Withdrawing from the Canada Pension Plain has merit for Alberta. But Albertans should be able to pull out of all mandatory government pension plans and invest their money how we see fit, instead of handing it over to the taxman. Taxpayers are much better positioned to manage their own money than politicians in Ottawa or Edmonton who couldn't balance a lemonade stand's budget.

Only the individual knows how best to use their income – whether that's to pay for groceries, invest in a new home, take the family on a trip to Mexico or put extra money away for retirement. When the government forces individuals to pay into a mandatory retirement fund, Albertans necessarily have less money to afford the necessities or save for their own retirement.

Even beyond the clear fact that individual Albertans know better how to use their own money than any bureaucrat or politician, the evidence shows that higher forced savings in a government pension plan doesn't necessarily increase total savings.

"Indeed, in response to the increase in the CPP tax from 5.6 per cent to 9.9 per cent between 1996 and 2004, average Canadian households decreased their private savings by roughly $1 for every $1 increase in the CPP," explain Jason Clemmons and Charles Lammam of the Fraser Institute. "In other words, there was no net increase in the savings rate, simply a shift from private savings to the CPP. This shift is made all the more questionable by the meagre CPP returns outlined above."

A forced government savings plan will have the biggest impact on lower income families. Those with the toughest budget constraints will have less money to purchase current necessities or set aside future voluntary savings when forced to save in a government pension plan. In fact, a 2015 Fraser Institute study found the largest drop in private savings due to CPP increases came from lower income individuals while voluntary savings for higher income earners wasn't significantly impacted.[76]

If Premier Kenney is dead set on forcing Albertans to fork over their paycheques to a government pension plan, then he should take a page from Australia's individual retirement savings account.

In Australia, workers must contribute a portion of their salaries to their own retirement savings account, rather than a collective pension plan. This allows workers to: choose an investment strategy that best suits their preferences and circumstances, leave their money to loved ones upon death, and withdraw investment income for health and financial emergencies without being penalized. Under this approach, workers truly own and benefit from their savings.

The fundamental difference between Australia's model and Canada's collective CPP system is that Australia's system is based on individual defined contribution accounts, similar to what already happens with RRSPs and TFSAs invested through larger banking institutions.[77] If the Alberta government followed Australia's model, the province could pre-approve investment providers (e.g., major banks and credit unions, etc.) and set minimum savings requirements, but the bulk of the decisions would be made, not by bureaucrats and politicians, but by workers savings for their retirement. It would be in the best interest of working Albertans for the government not to set strict limits on which institutional investors could provide these accounts as to allow for maximum competition to drive down the costs to savers and to allow maximum flexibility in types of investments.

According to the 2019 Melbourne Mercer Global Pension Index, Australia's system was ranked third in the world while Canada's was ranked ninth, based on its three components of adequacy, sustainability, and integrity.[78]

[75] Jason Clemmons and Charles Lammam, "CPP reforms need a complete rethink," Fraser Institute 2017, https://www.fraserinstitute.org/article/cpp-reforms-need-a-complete-rethink

[76] François Vaillancourt, Charles Lammam, Ian Herzog, and Pouya Ebrahimi, "Compulsory Government Pensions vs. Private Savings: The Effect of Previous Expansion to the Canada Pension Plan," Fraser Institute 2015, https://www.fraserinstitute.org/sites/default/files/compulsory-government-pensions-vs-private-savings.pdf

[77] Stephen Kirchner and Charles Lammam, "Lessons for Ontario and Canada from Forced Retirement Saving Mandates in Australia," Fraser Institute 2015, https://www.fraserinstitute.org/sites/default/files/lessons-for-ontario-and-canada-from-forced-retirement-saving-mandates-in-australia.pdf

[78] Melbourne Mercer Global Pension Index 2019, https://info.mercer.com/rs/521-DEV-513/images/MMGPI%202019%20Full%20Report.pdf

Along with the fact that mandatory government pension programs don't necessarily increase total savings (this is especially the case with higher forced contributions and individuals with lower incomes), it's important for the panel to recognize that both Canada's CPP and Australia's individual retirement savings accounts are intended to be pension plans, not social safety nets. Canada's social safety nets are not the CPP, but Old Age Security and Guaranteed Income Supplement. Australia has a similar system in place. As such, any decision around withdrawing from the CPP must be made with the objective of improving the pension and investment system for working Albertans.

Recommendation: Withdraw from the Canada Pension Plan and allow Albertans to save for our retirement the way we see fit (do not replace the CPP with any forced retirement system).

Recommendation: If the government is going to mandate a savings plan, then follow the principles of Australia's individual retirement savings account.

More Autonomy and Accountability for Albertans

The Alberta government should push for greater autonomy and accountability over the delivery of social and health programs by seeking an exchange of tax points instead of receiving the Canada Health Transfer and Canada Social Transfer. This would allow Albertans to better hold our politicians accountable for health and social services and better decide what kind of government services we demand.

In 2019, the federal government is projecting to collect $55 billion from taxpayers and transfer it to the provincial governments through the CHT and CST who are then responsible for delivering health and social services.[79] This system results in a clear issue for accountability: no government has clear responsibility for delivering key programs and both levels readily blame the other when something goes wrong.

It's not clear who taxpayers should be holding accountable when there are issues with the health care system, for example. On the one hand, it's too easy for Edmonton to blame Ottawa for constraining its ability to offer an innovative health-care system and failing to provide enough funding. Yet, on the other hand, it's too easy for Ottawa to blame Edmonton for poor health care results because it's ultimately the provinces that deliver health services.

In "The GST Cut and Fiscal Imbalance," University of Toronto professors Michael Smart and Richard Bird explain how the lack of accountability between levels of government also results in a tragedy of the commons outcome that leaves taxpayers on the hook for higher and higher federal transfers. This is of particular concern to Alberta taxpayers, given our over-sized contribution to federal coffers.[80]

> *"Federal tax revenues are in effect a common pool of resources that is available to whoever is the first to exploit them. Like all poorly managed common property resources, the result is an inevitable tendency to exploitation. We end up with a race among provincial governments to exploit taxpayers who reside in other provinces through federal transfer negotiations … Naturally, the premiers would like to spend more without raising taxes themselves. It is only the current system of murky shared responsibility that makes this seem like more than a pipe dream … What is needed is a reform that improves accountability and helps to eliminate these transfer games."*

Professors Smart and Bird has a simple solution to this problem:

> *"A properly designed tax point transfer would put an end to the continued renegotiation of federal transfers and the resulting fiscal illusion for voters. If provinces wished to spend more on health care they would have to increase taxes directly, and face the wrath of voters on Election Day if their decisions were the wrong ones."*

Through the transfer of tax points to the provinces, Alberta would be solely responsible for collecting revenue for government health care and delivering the services. This

[79] Federal Government, Budget 2019, https://www.budget.gc.ca/2019/docs/plan/budget-2019-en.pdf

[80] Michael Smart and Richard Bird, "The GST Cut and Fiscal Imbalance" (Toronto, International Tax Program, Rotman School of Management, 2006). See Kenneth J. Boessenkool, "Fixing the fiscal imbalance turning GST revenues over to the provinces in exchange for lower transfers," 2010, https://www.policyschool.ca/wp-content/uploads/2016/03/gst-boessenkool-online3.pdf?fbclid=IwAR16-IjX5CLray1aIFDHx3eTh6CI4sZ6GqfvzL2iZEar3BfPQx6-qL9gRXM

system would also allow the province to determine what kind of health care system would best meet the needs of Albertans.

The federal government currently has large control over the type of health care system the Alberta government can deliver, by withholding payments through the CHT. The expected CHT transfer to Alberta in 2018 was $4.5 billion, representing 54.3 per cent of transfers to the province and 22 per cent of provincial spending on health care.[81] Whether the province actually receives these funds depends on whether the provincial government adheres to federal legislation – the Canada Health Act.

While the Fraser Institute recommends the Alberta government make innovative reforms to better embrace the business community in health-care delivery, it acknowledges that ambiguity under the federal legislation makes it difficult for provincial policy makers to know what they can or cannot do and still receive CHT funding.

> *"The combination of a lack of clarity coupled with the federal government's unilateral ability to determine whether a province is adhering to the CHA, as well as the ongoing political sensitivity to the Act, creates a fairly risk-averse environment for those wishing to reform health care at the provincial level ... Just as the criterion for whether a province is deemed to be complying with the CHA is almost entirely at the discretion of the federal government, the penalties for non-compliance are also, for the most part, at the discretion of the federal government."*[82]

The transfer of tax points would make this a moot issue and allow the provincial government to provide the type of services its voters demand. Put another way, no longer would the Alberta government be constrained by Ottawa's controls over our health care.

Recommendation: Seek an exchange of tax points instead of receiving the Canada Health and Social Transfers.

Recommendation: The panel should also consider the economic viability of seeking tax points in exchange for foregoing federal infrastructure spending and if the costs to taxpayers would remain the same (or are lower), the Alberta government should also exchange infrastructure funding for tax points.

[81] Bacchus Barua, Jason Clemens, and Taylor Jackson, "Health Care Reform Options for Alberta," Fraser Institute 2019, https://www.fraserinstitute.org/sites/default/files/health-care-reform-options-for-alberta.pdf

[82] Bacchus Barua, Jason Clemens, and Taylor Jackson, "Health Care Reform Options for Alberta," Fraser Institute 2019, https://www.fraserinstitute.org/sites/default/files/health-care-reform-options-for-alberta.pdf

Getting Alberta's Own Fiscal House in Order

Many of the proposals the Fair Deal Panel is tasked with studying – and discussed within this report – have the potential to benefit Albertans, especially financially. Even with these reforms, a huge challenge standing in the way of provincial prosperity is the inefficient and high-spending provincial government. Actions to get Alberta's own fiscal house in order must be a priority for the government, and most importantly, these actions can be taken without the consent of the federal government.

As the provincial government's debt approaches the $70-billion mark, it's clear that we have a problem. The problem is that our provincial government spends too much of our money, not that the government isn't taking enough from our wallets. We're not going to solve this problem by letting politicians take billions of dollars more. We're going to solve this problem by rolling back years of runaway Alberta government spending.

Between 2004 and 2015, the Alberta government's program spending doubled. At an average growth rate of 7.1 per cent per year, spending outpaced average revenue growth rate of 4.6 per cent. Beginning in 2004, had the government only increased spending to keep up with inflation-plus-population growth, a budget surplus would have occurred in every year during this time frame. But even when revenues were running high, the government still ran seven deficits.[83] And when taxpayers needed tax relief the most, the New Democrat administration increased spending by 16.5 per cent.[84]

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

As Table 2 illustrates, even with last year's relatively low non-renewable resource revenues, the Alberta government still brought in more revenue per-person than British Columbia.

Table 2

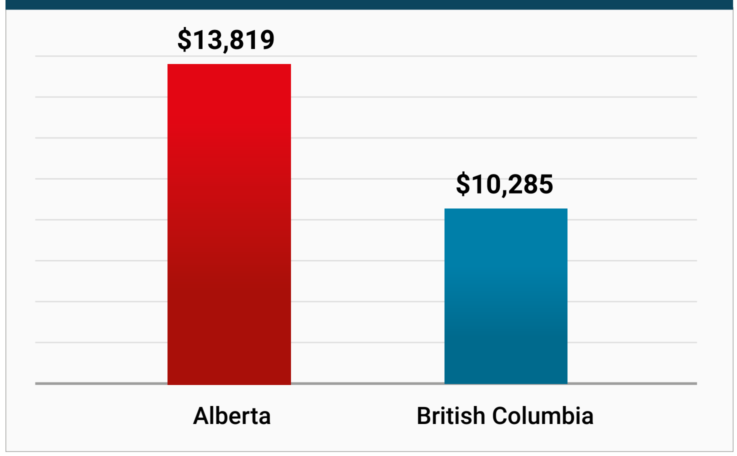
Per-person revenue 2018 Alberta vs. B.C.[85]

	Alberta	BC
2018 Revenue	$49,624,000,000	$57,128,000,000
2018 Population	4,335,768	5,031,893
2018 Revenue per Person	$11,445	$11,353

The Alberta government doesn't have a revenue problem, it has a spending problem. As Figure 9 illustrates, the Alberta government spends $3,534 more per-person than the B.C. government every year.

Figure 9

Per-person spending 2017 Alberta vs. B.C.[86]



[83] Steve Lafleur, Ben Eisen, Milagros Palacios, and Charles Lammam, "Alberta's Budget Deficit: Why Spending Is to Blame," Fraser Institute 2017, https://www.fraserinstitute.org/sites/default/files/albertas-budget-deficit-why-spending-is-to-blame-2017.pdf.

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

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

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

If the Alberta government merely brought its spending in line with B.C., taxpayers would save about $15 billion every single year, according to data in the Blue Ribbon report.[87] For perspective, over the last two decades, non-renewable resource revenue was at its highest in 2005 when it reached $14.3 billion.[88] If Alberta spent like B.C. last year, we could have balanced the budget even if non-renewable resource revenues approached zero.

While budget 2020 is reducing operating spending by about two per cent between 2018 and 2022, total spending is still going up. Not only is total spending increasing this year, but it is expected to be $587 million higher in 2022 than it was under the Alberta NDP. A key part of the spending problem is that the government is shielding some of the budget from needed spending cuts, particularly health and education. As Table 3 illustrates, spending is not being cut in health or education budgets, which are the two biggest operating expenses and combined account for about 60 per cent of the operating budget.

Table 3

Health and education spending (millions $)[89]

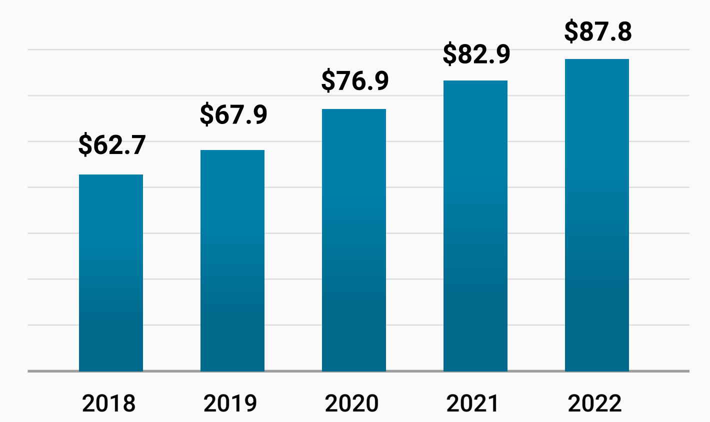
	2018	2019	2020	2021	2022	% of Operating Budget 2020
Health	$20,409	$20,828	$20,616	$20,632	$20,672	43.1%
Education	$8,222	$8,222	$8,322	$8,247	$8,247	17.4%

Big savings will be difficult to achieve if politicians aren't willing to touch the health care or education budgets. If the Alberta government brought its per person spending on health care in line with B.C., Alberta taxpayers would save $3.5 billion every year. If the Alberta government brought its per student spending on K-12 education in line with B.C., Alberta taxpayers would save another $1 billion every year.[90] As illustrated above, a transfer of tax points instead of federal transfers could help Alberta politicians improve services such as health care, but Alberta politicians will still need the political backbone to make the necessary reforms to improve the system and reduce taxpayer burdens.

The growing spending means more and more debt is being piled on to the backs of future taxpayers. As Figure 10 illustrates, the government is expecting to add more than $25 billion in debt by the end of 2022.[91]

Figure 10

Alberta's growing government debt (billions $)



Taxpayers also have to pay the interest on the debt. By 2022, the interest charges are forecasted to reach about $3 billion. That means each Albertan will lose about $644 in 2022 to pay bond fund managers on Bay Street for interest charges on the provincial government debt.[92]

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

[88] Alberta Government, "Budget 2007: Managing our Growth," 2007, https://open.alberta.ca/dataset/3a6b07bf-92a0-40b6-9cf1-966ef67cdb22/resource/e7035b20-7210-42c7-a9cd-387ce28f9a2f/download/fiscal-plan-complete-2007-10.pdf

[89] Alberta government, "Fiscal Plan 2020-23," 2020, https://open.alberta.ca/dataset/05bd4008-c8e3-4c84-949e-cc18170bc7f7/resource/79caa22e-e417-44bd-8cac-64d7bb045509/download/budget-2020-fiscal-plan-2020-23.pdf

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

[91] Alberta Government, Budget 2020, https://open.alberta.ca/dataset/05bd4008-c8e3-4c84-949e-cc18170bc7f7/resource/79caa22e-e417-44bd-8cac-64d7bb045509/download/budget-2020-fiscal-plan-2020-23.pdf

[92] For debt servicing costs see Budget 2020: https://open.alberta.ca/dataset/05bd4008-c8e3-4c84-949e-cc18170bc7f7/resource/79caa22e-e417-44bd-8cac-64d7bb045509/download/budget-2020-fiscal-plan-2020-23.pdf; For population estimates see Alberta Government: https://open.alberta.ca/opendata/alberta-population-projections-2019-2046-alberta-census-divisions-and-economic-regions-data-tables

The United Conservative government has already promised to balance the operational budget within its first term and Budget 2019 lays the path to balance by the end of 2022. But the additional $25 billion in debt shows the need for longer-term planning. On this, the Alberta government should take a page from the reforms introduced in the 1990s and implement a balanced budget and debt retirement law, including the following restraints.

First, total spending and all department budgets (including health care and education) must see cuts until the budget is balanced. Second, deficits must be outlawed after 2022 with penalties to MLAs if deficits persist. As head of the Canadian Taxpayers Federation in the 1990s, Premier Jason Kenney pushed for balanced budget laws where MLA compensation would be reduced by the same percentage that the yearly targets for deficit reduction were off.[93]

Once the budget is balanced limits should be put in place to ensure that program spending cannot increase faster than population plus inflation growth, unless voters approve the spending increase in a provincial referendum. Finally, Alberta's new law should include a debt retirement schedule, similar to the Fiscal Responsibility Act implemented in 1999,[94] to hold politicians accountable if they are not taking the debt problem seriously.

Given Alberta's spending and debt problem, the panel must thoroughly analyze the cost of the Fair Deal proposals before making any recommendation to the government. The Alberta government doesn't have a blank cheque to increase spending.

Recommendation: Reduce total spending and spending in every department until budget is balanced.[95]

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

- Total spending cuts until the budget is balanced
- Deficits outlawed after fiscal year 2022
- Financial penalties for MLAs if the budget is not balanced (after fiscal year 2022)
- Limit spending growth to population plus inflation (after budget is balanced)
- Debt repayment schedule

Fair Deal Proposals

From a taxpayer perspective, a fair deal for Alberta must begin with challenging and reducing equalization, withdrawing from the CPP and seeking an exchange of tax points for greater provincial autonomy and accountability.

While the Canadian Taxpayers Federation understands that the fair deal proposals may be very popular, we remain leery of some (e.g., increasing Alberta's role abroad). There may be merits for other proposals (not discussed in report), such as increased autonomy, but the devils are in the details and the government doesn't have a blank cheque to increase the burdens on taxpayers.

[93] Ashley Geddes, "Group demands tax freeze," Calgary Herald 1993, https://www.newspapers.com/image/485025468/?terms=jason%2Bkenney

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

[95] For more information on specific ways to achieve spending reductions see the Canadian Taxpayers Federation's 2020 Alberta pre-budget submission: http://www.taxpayer.com/media/CTF_AB_Pre-Budget_Submission.pdf