Alberta Federation of Labour

ALBERTA'S REVENUE CRISIS

Introduction

Alberta's revenue crisis – not our spending – is the most important issue facing our province. If Albertans want sustainable and high-quality public services, we must tackle our revenue crisis immediately and decisively.

Unions are a driving force in the progressive movement and must take Alberta's revenue crisis seriously. If we do not, we give up most – if not all – opportunities for talking about a different direction for public services like health care, education, social services, child care, seniors' services, and environmental protection. We must have the public funds to invest in the things that matter.

Tax cuts are the cornerstone of conservative policies around the world because they rob governments of the ability to take action. Providing necessary services to those who need them most, acting collectively to solve collective problems, or properly regulating the private sector all depends on government revenue.

Conservative ideology tells us that government is incapable of guarding our interests and that the market is the best and most appropriate way to organize human affairs, even for services like education and health care. Tax cuts bring that ideological fantasy to life. Tax cuts deliberately deprive government of its ability to distribute services and meet basic human needs. Seen in this context, tax cuts are about much more than allowing corporations to reap unprecedented profits or creating a class of super-rich individuals – though these have been their inevitable consequences. A constant focus on tax cuts by conservatives is, at base, about diminishing our expectations about what we can expect of government. Tax cuts are essentially about undermining our collective confidence in what we can accomplish together.

The province of Alberta is the perfect case study for tax reform. Our flat tax disproportionately benefits very wealthy citizens, and we have the fastest-growing number of super-rich individuals in Canada. Our corporate tax rates are the lowest in Canada, while corporate profits are the highest. We depend on unstable resource revenues, rather than the more stable footing of tax revenues, for the majority of our program spending, sending the province on a roller-coaster ride every time there is a slight blip in global commodities markets.

Alberta's relatively low revenues from natural resources and taxes dampens our expectations of what government can accomplish, and the result is that Alberta actually spends less – far less – than it ought to on public services. Any clear-eyed examination of public spending (taking into account population growth and inflation) shows that Alberta's spending on services is flat or dropping. Alberta does not have a spending problem; we have a revenue problem. If we have any spending problem at all, it is that we do not the right amount. Alberta lags behind the rest of the country and the rest of the industrialized world on a variety of key social indicators – demonstrating that our investments in social and environmental infrastructure are falling further and further behind.

It's Not Complicated: Two Basic Problems with Alberta's Revenue System

Alberta has two problems with the way we collect revenue. While it is in the interests of corporate-backed think tanks for people to believe that taxes, revenues, and government budgets are highly complex and beyond the scope of understanding for ordinary folks, our problems are actually extremely simple. First, our revenues are far too volatile. Second, there are not enough of them.

Problem # 1: Our revenues are volatile.

Conservatives sometimes say that personal and corporate tax revenues are just as volatile as revenues from non-renewable resources. This acts as one justification for keeping Alberta's personal and corporate taxes extremely low, and for disproportionately relying on revenues from non-renewable resources to fund public services like health care or education.

This view is patently false.

The evidence shows personal and corporate tax revenues are far less volatile than commodity price revenues.[1] The evidence further shows Alberta's revenues are much more volatile than revenues in other provinces.

Revenue volatility has three general consequences – all of which are antithetical to a common-sense approach to budgeting and long-term planning.

First, revenue volatility makes budgeting almost impossible. In fact, Alberta is the worst budgeter in Canada: A 2010 study found that the two provinces most heavily reliant on volatile energy revenues – Alberta and Saskatchewan – have the worst records of all the provinces at hitting budget targets.[2] It is difficult to forecast infrastructure and social spending at appropriate levels when it is not clear how much of our revenue fluctuations – up or down – are permanent or temporary. When the price of oil goes up, we don't

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[1] Stuart Landon and Constance Smith. "*Energy Prices and Alberta Government Revenue Volatility*." CD Howe Institute Commentary. http://www.cdhowe.org/pdf/Commentary_313.pdf

[2] Busby, Colin, and William B.P. Robson. 2010. "*Target Practice Needed: Canada's 2010 Fiscal Accountability Rankings*." Backgrounder 129. Toronto: C.D. Howe Institute. As quoted in Landon and Smith, http://www.cdhowe.org/pdf/Commentary_313.pdf

know how long it will last. The same goes when the price dips. Services and infrastructure require more certainty than that.

Second, government revenue volatility is bad for business. Volatility makes it difficult for the private sector to predict government taxing and spending policies, which have a significant impact on investment decisions. At least three international studies show that government revenue and spending volatility leads to slower economic growth.[3]

Third, revenue volatility unnecessarily inflates government spending. In Alberta, when revenue goes up, government spending goes up, and when oil and gas prices dip, government spending has to contract. The trouble with this approach is that government spending on wages or construction in good times has to compete with the private sector. This increases demands for everything from workers to steel and concrete. There is good evidence to show that this is precisely what happened during Alberta's most recent oil-sands boom: "... in Alberta, the prices of current goods and services purchased by government rose at an average annual rate of 4.1 percent between 2002 and 2008, while they rose by only 2.6 percent in BC and 3.3 percent in Ontario. During this same period, real per capita government revenues were rising more than twice as fast in Alberta as in either Ontario or British Columbia."[4]

This phenomenon is called "pro-cyclical" government spending. Typically, governments undertake "counter-cyclical" economic policies – when the economy is good, government can maintain the status quo in terms of spending on infrastructure and social services, but when the economy worsens, it's government that steps in to make sure people have jobs (through government investments in infrastructure and services) and also money to spend (via social programs like Employment Insurance or income support).

During the most recent 2008-2010 recession, Alberta was one of the only jurisdictions in the industrialized world – and certainly the only jurisdiction in Canada – to cut program spending in 2010, which we did in many areas like job training, housing, social services, the public service, the arts, and some municipal programs, though the larger portfolios of health and education were spared large reductions.[5]

Alberta was also one of the only places in the industrialized world that did not implement some kind of economic stimulus program via special infrastructure spending aimed at job creation. Alberta is a perfect real-world example of the problems associated with pro-cyclical spending – we spend far too much on infrastructure and capital projects in the good times, and far too little on insulating ordinary working people from the effects of recession when times get tough. For years, the consequences

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[3] Barnett and Ossowski 2002; Afonso and Furceri 2008; Sturm, Gurtner, and Alegre 2009. As quoted in Landon and Smith, http://www.cdhowe.org/pdf/Commentary_313.pdf

[4] Ibid

[5] Alberta Federation of Labour, "*Alternative Fiscal Update*," August 2010. http://www.afl.org/index.php/Press-Release/reforming-broken-revenue-system-vital-to-albertas-fiscal-future.html

of this approach have been apparent to any Albertan looking for housing during the boom or a job during the recession.

Problem #2: We do not collect enough revenue.

Alberta is a very wealthy place. Alberta is one of the only places in the world without any public debt. Alberta's net assets (savings, endowments, Sustainability Fund) are about $47 billion.

What is more, we sit on some of the most lucrative and strategic land in the world.

It's useful to put Alberta's oil wealth in international context. The vast majority of the world's oil reserves are under the control of countries in Central Asia, the Persian Gulf and the Middle East, addition to countries like Russia, Norway, and Venezuela. What these diverse locations have in common is that their oil resources are under the control of National Oil Companies (NOCs). Ninety-two per cent of the world's oil and gas resources are controlled by NOCs.[6] While American, British, Chinese, or Canadian companies can and do work on oil projects in partnership with national oil companies in the Middle East or the Persian Gulf, they do so largely in a service capacity. In most cases, the oil is owned and controlled by the National Oil Companies, and in most cases the lion's share of the profits go back to the government in question.

By contrast, just 8 per cent of the world's oil reserves are fully available to International Oil Companies (IOCs) without restrictions. IOCs are the brand names we see in North America, such as ExxonMobil (operating as Imperial Oil in Canada), BP/Amoco, ConocoPhillips, or Royal Dutch Shell. IOCs operate in countries where they are permitted to undertake exploration, development, and production in exchange for royalties.

Of that 8 per cent of oil fully available to IOCs without any restrictions, more than half of it sits in the Alberta oil sands. In other words, over half of the future business of the world's most powerful corporations will take place in Alberta.

Alberta is a place of staggering geopolitical significance. The question is whether we act like owners of our resources and use them to build a sustainable economy that benefits us all.

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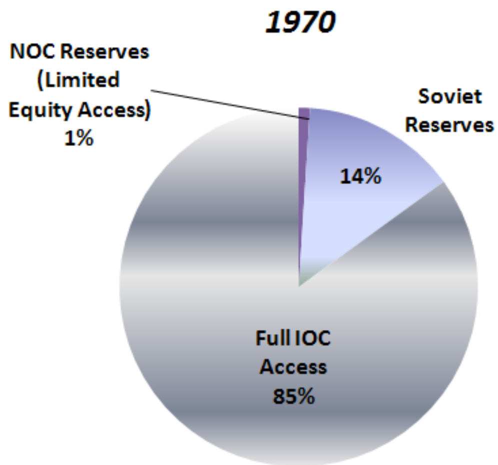
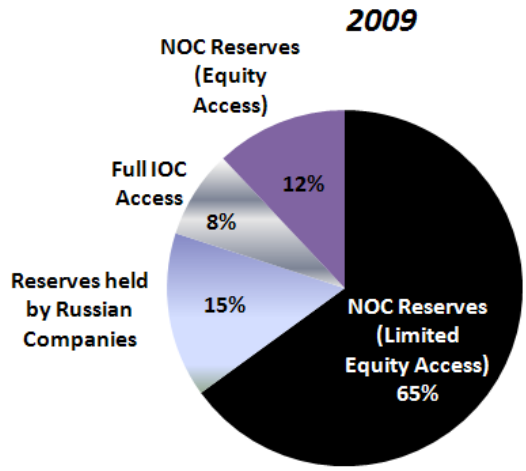
[6] *Misplaced Generosity*, Parkland Institute





Source: PFC Energy, Oil & Gas Journal, BP Statistical Review

A Short Primer on Royalties

A full discussion of royalties is beyond the scope of this paper. However, a brief sketch is necessary.

First, royalties are not a tax – they are the price an oil company must pay for the right to the raw material. The people of Alberta own the oil, not the oil companies. In many ways, the role of the oil company parallels the role of a real estate agent. The real estate agent does not own the house – but he or she takes the house to market, for a fee. It is understood that the real estate agent, in exchange for her or his services in selling the house, is entitled to make a small profit off the commission for their services.[7]

By contrast, a tax is a percentage paid on something a company owns and sells. Oil companies do not own our oil just a real estate agent does not own the house they are selling.

An oil company finds, extracts and sells a commodity that does not belong to it, just like a real estate agent. In exchange, it is allowed to deduct certain costs of production and a normal rate of profit – usually understood in the business world as something in the 10-per-cent range. Anything over and above appropriate costs in exploring and producing the oil, plus a 10-per-cent profit, is what we call "economic rent" – the leftover amount of what the Albertan-owned resource is worth.[8]

Albertans are entitled – like every other royalty-charging jurisdiction in the world – to maximize our economic rent. But we capture very little of the rent available to us, leaving companies with billions in excess profits.

[7] Regan Boychuk, Parkland Institute, Progressive Economics Forum
[8] *Misplaced Generosity*, Parkland Institute

To illustrate just how significant the giveaway really is, the Parkland Institute examined the oil industry's own figures detailing their cost of production versus the price of oil. The Parkland study put those figures up against the percentage of economic rent that the government set as its own policy.

The Parkland Institute found that Alberta's target for economic rent from conventional oil and gas is, according to Alberta Energy, between 50 per cent and 75 per cent. However, Alberta hasn't been able to meet its targets in a decade and has since stopped reporting on targets altogether.

- If the government of Alberta had managed to meet the middle of its 50- to 75-per-cent target of economic rent on conventional oil and gas, it would have collected an additional $37 billion over the last decade.
- If the government of Alberta had set royalties to capture the upper end of its target range, Albertans would have enjoyed another $65 billion in revenue from *conventional oil and gas alone.*

As for the oil sands, the amount of economic rent Alberta captures is staggeringly low. Since 2001, Alberta captured between 8.9 per cent and 14.7 per cent of economic rent.[9] The 2008-10 recession did not dampen profits, either: in 2009, "tar sands companies still managed between $14.3 and $26.2 billion in pre-tax profit in exchange for only $2.2 billion in royalties and land sales."[10]

Another way to look at the lost billions can be found in a recent paper published by the right-wing CD Howe Institute. The authors examined per capita, inflation-adjusted revenues from Alberta's largest sources of non-renewable resource revenues – natural gas, conventional crude, land sales, and the synthetic crude upgraded from the oil sands. The results are shocking. In the depths of the National Energy Program – when Alberta's economy was reeling from low global commodity prices, high interest rates, and extraordinary job losses – Alberta collected $4,669 per person in revenue from non-renewable resources. In 2008, despite astronomical increases in oil-sands developments and much higher global oil and gas prices, Alberta collected just $2,661 per citizen in non-renewable resource revenues.[11]

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[9] Accounting for "costs" of production is more difficult in the oil sands, where companies are allowed to deduct ***all*** capital costs before paying virtually any royalty to the government of Alberta. "Because virtually no royalties are paid on bitumen production from the tar sands until after all project construction and operating costs are recovered by the oil company, it cannot be correct to call the tens of billions invested in these massive projects "costs." Essentially, a company that builds a $10-billion asset will receive $10 billion in free oil from Albertans, while remained the owner of that $10 billion asset, which will produce enormous revenue for decades to come. Even the cost of fronting the money, about an additional 5 per cent a year, is reimbursed with free oil. In effect, virtually all tar sands production has been paid for with public wealth but most of the profit is transferred to private hands." Regan Boychuk, *Misplaced Generosity*. p. 30.

[10] *Misplaced Generosity*, Parkland Institute

[11] Landon and Smith, CD Howe Institute Commentary. http://www.cdhowe.org/pdf/Commentary_313.pdf

Table 5: Real Per Capita Natural Resource Revenue by Type, Alberta, Fiscal Years 1981/82-2008/09

Fiscal Year	*Natural Gas and By-Products*	*Crude Oil Royalties**	*Bonuses for Sale of Crown Leases*	*Synthetic Crude Oil*	*Total Non-Renewable Resource*
		(constant 2002 dollars)			
1981/82	1,768	1,970	503	208	4,669
1982/83	1,453	1,815	261	281	4,005
1983/84	1,210	2,059	348	217	4,029
1984/85	1,359	2,137	463	na*	4,203
1985/86	1,235	1,888	495	na*	3,841
1986/87	718	665	191	na*	1,585
1987/88	638	858	480	na*	1,970
1988/89	600	581	273	na*	1,554
1989/90	548	642	222	16	1,522
1990/91	576	707	222	21	1,630
1991/92	420	520	131	16	1,192
1992/93	513	485	80	31	1,204
1993/94	651	354	331	30	1,463
1994/95	562	491	437	93	1,688
1995/96	444	466	255	138	1,410
1996/97	559	596	399	220	1,890
1997/98	680	368	439	79	1,559
1998/99	581	178	184	23	931
1999/00	927	419	282	162	1,777
2000/01	2,583	538	416	255	3,797
2001/02	1,376	337	331	63	2,126
2002/03	1,638	376	181	58	2,279
2003/04	1,665	300	295	60	2,346
2004/05	1,875	371	365	209	2,838
2005/06	2,289	399	952	259	3,915
2006/07	1,525	356	627	614	3,122
2007/08	1,247	397	270	699	2,644
2008/09	1,303	402	248	664	2,661

*Crude oil royalties for 1984/85-1988/89 include synthetic crude products.

Sources: Revenues are from Alberta, Department of Energy, Annual Report, various issues. Data for population and the price index are from Statistics Canada as described in the Data Appendix. These population and price data are annual, so data are for the calendar year in which the fiscal year begins.

What Should Be Done With Royalty Revenues? Converting Natural Wealth to Sustainable Wealth

Alberta's current practice to spend almost every penny earned from royalties. But royalties are a share of the value of a finite resource. Once the oil, gas or coal is gone, the rents are gone. It makes sense, then, that resource-royalty rent for our declining assets should be converted into some other kind of asset – converting natural capital into financial investments, such as green infrastructure and renewable energy industries. This is the wisest, most prudent and most practical use of our oil and gas wealth.

It is all very nice to argue that royalties should be saved for a rainy day or invested in a new green economy, but there needs to be something to save. If we fail to capture fair and reasonable tax revenues from corporations, individuals, and other forms of economic activity such as financial transactions, then we are left with being forced to rely on natural resource revenues – funding for health, education, and social services has to come from somewhere.

Getting off the roller coaster means having some serious, forthright conversations about taxes.

Alberta Does Not Collect Enough Revenue, Continued: Personal Income Tax

What is a flat tax, and why is it a problem? What are the alternatives?

A flat tax is levied when individuals pay the same rate regardless of what they make. By contrast, progressive taxation is a system where you pay more as you make more.

Which situation is fairer? Proponents of the flat tax argue that a single rate is fairer, because no one should be punished for earning more money. In addition to the fact that it is dead simple to explain and makes sense as a superficial analysis, fairness is the main argument behind the flat tax.

Proponents of progressive taxation argue that it is fairer on several grounds. First, there is a base amount that everyone requires to live – what we understand as a low-income cut-off or a poverty line. Anything above that is disposable income. It does not make any sense that someone who earns only $5,000/year above the poverty line – after meeting their basic needs – should pay 10-per-cent tax on those earnings, while someone who earns $50,000/year above the poverty line also pays 10-per-cent tax on those earnings.

Almost no one in the world charges a flat tax. Only seven American states use a flat tax, but American states do not fund important and expensive programs like health and education in the same way as Canadian provinces. Around the world, only a handful of Eastern European countries have a flat tax, and even then, the rates are much higher than Alberta's 10-per-cent rate. Alberta shares a 10-per-cent flat tax rate with only one other jurisdiction in the world – Albania, one of the poorest countries in Eastern Europe.

Alberta's losses to the flat tax over the years have been staggering. At the time of its implementation in 2001, then-Finance Minister Steve West estimated the province would lose at least $1.5 billion per year in revenue.

The tax reductions ushered in by the flat tax were not distributed evenly. Those earning more than $150,000 got a 20-per-cent reduction in their income tax payable in 2001; for those earning more than $250,000, the instant tax cut was about 24 per cent. By contrast, a middle-income individual got a less than an 8-per-cent tax cut.

The Flat Tax a Boon to the Wealthy: The Super-Rich a Growing Segment of Alberta's Population

Since the 1990s, Albertans earning more than $500,000 a year in taxable income grew at a far faster rate than Ontario or B.C.

In 1997, Alberta was home to 19 per cent of all Canadians earning over $500,000 a year in taxable income. Ontario, Canada's biggest province, had just over 47 per cent and B.C. had nearly 15 per cent. Since then, Alberta's share of these earners has steadily increased. Now, 25 per cent of all Canadians earning more than $500,000 a year live in Alberta, but our population is only about 10 per cent of the Canadian total.

Ontario and B.C., on the other hand, have seen their share of earners making more than $500,000 drop. The number of Alberta's $500,000+ earners has increased by 30 per cent, while B.C. and Ontario's shares *decreased* by 10 per cent each.[12]

Alberta, Ontario and B.C.'s Share of all Canadian $500,000 Earners

Percentage share of Canadian $500k+ earners

	Alberta	*Rest of Canada*	*BC*	*Ontario*
1997	19.01%	80.99%	14.88%	47.52%
1998	18.92%	81.08%	14.29%	48.65%
1999	17.71%	82.29%	13.89%	50.00%
2000	17.27%	82.73%	12.53%	51.25%
2001	20.54%	82.73%	12.80%	48.81%
2002	20.18%	79.82%	13.25%	48.49%
2003	20.34%	79.66%	12.89%	48.14%
2004	21.09%	90.87%	12.66%	47.15%
2005	23.09%	76.91%	13.14%	45.55%
2006	23.81%	76.19%	13.92%	44.51%
2007	23.50%	87.25%	14.42%	43.44%
2008	24.87%	75.13%	13.23%	42.68%
Rate of change 1997 - 2008:	**30.83%**	**-7.23%**	**-11.08%**	**-10.20%**

Control of Wealth in Canada: Consolidation at the Top is Worst Since the 1920s

A recent study by the Canadian Centre for Policy Alternatives looked at income trends over the past 90 years. It showed that the richest 1 per cent of Canadians took almost a third (32 per cent) of all growth in incomes between 1997 and 2007.

[12]Tony Clark, Social Policy Simulation Database, Statistics Canada, Custom Tabulations. Report for Alberta Federation of Labour.

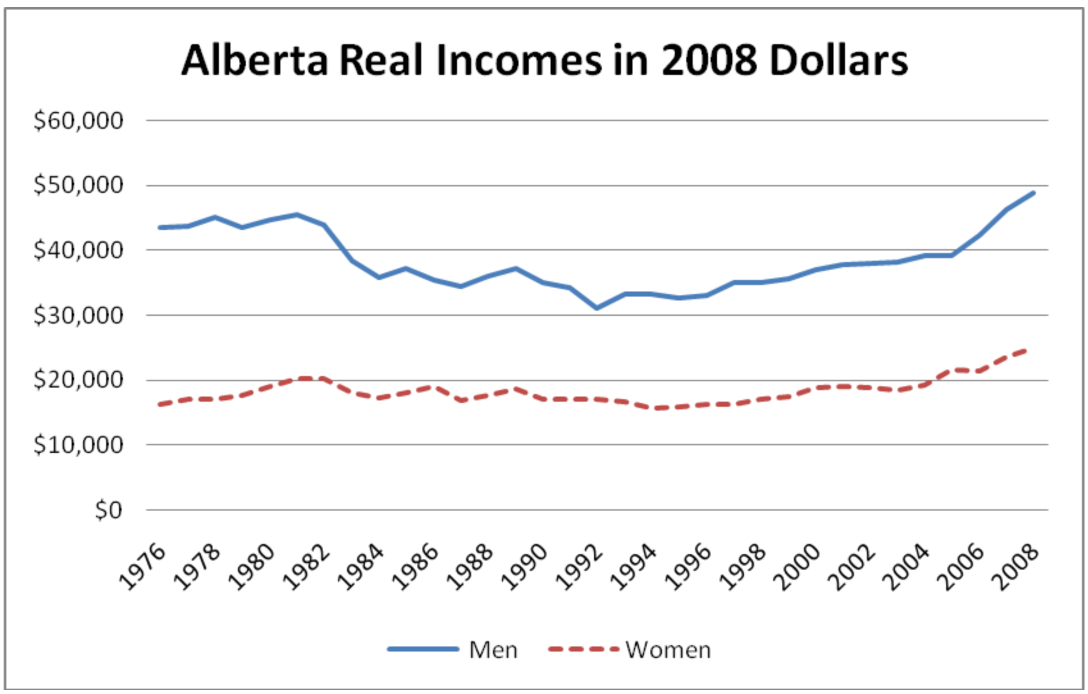
The last time Canada's elite held so much of the nation's income in their hands was in the 1920s.

The CCPA study, published in December 2010, showed that from the beginning of the Second World War to 1977, the income share of the richest 1 per cent dropped from 14 per cent to 7.7 per cent.

By 2007, the super-rich had made a comeback: The richest 1 per cent held 13.8 per cent of incomes. Since the late 1970s, the richest 1 per cent has almost doubled its share of total income; the richest 0.1 per cent almost tripled its share of total income; and the richest 0.01 per cent more than quintupled its share of income.[13]

A Growing Inequality

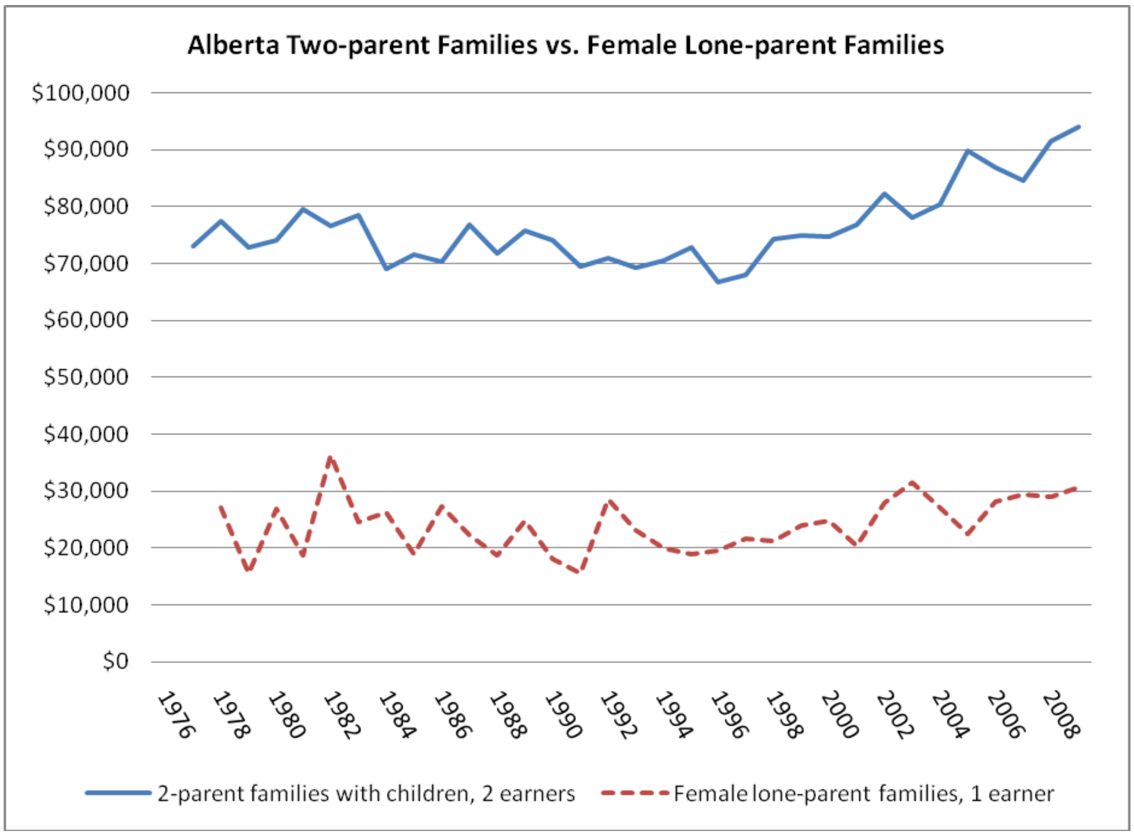
It is fashionable – and true - to claim that many Alberta families saw significant income gains during the last economic boom. Wages and incomes did increase, but these increases should be understood in context of twenty years of stagnation prior to the rapid growth from 2004 to 2008.



Adjusted for inflation, Albertans' personal incomes grew 39 per cent between 1989 and 2008. However, the entire economy grew 76 per cent. Personal incomes are therefore a steadily shrinking portion of the economy.[14]

[13]Armine Yalnizyan, "*The Richest 1%*," Canadian Centre for Policy Alternatives, December 1, 2010.
[14]Kevin Taft, Mel McMillan, and Junaid Jahangir, *Follow the Money: Where is Alberta's Wealth Actually Going? A Profile of Key Public and Private Sector Economic Trends in Alberta, 1989-2009*. May 2010.

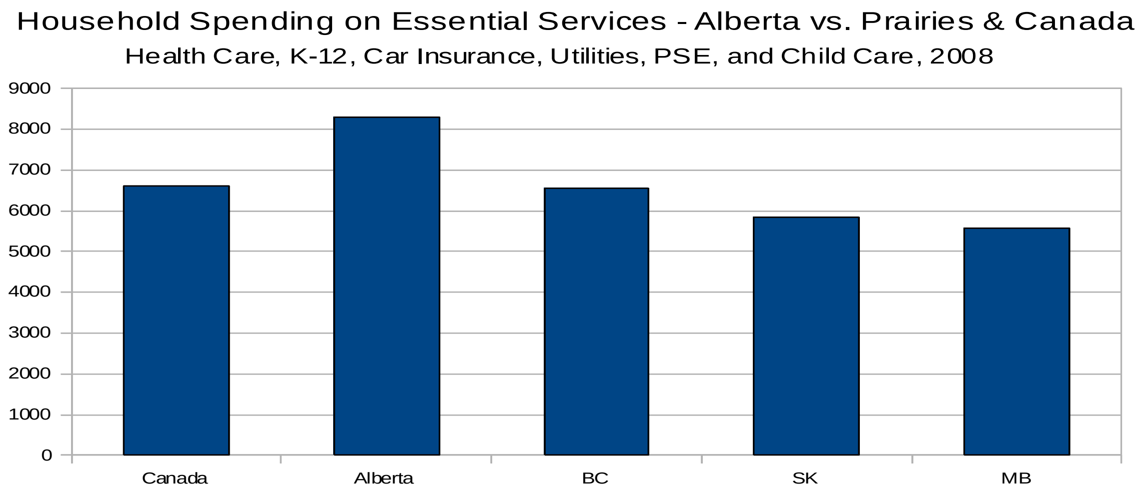
Furthermore, not everyone experienced big wage or income gains. For example, families headed by female lone parents actually saw a drop in their market incomes (what they earn from employment) rather than the increases experienced by the median two-parent, two-income family. Furthermore, women's median earnings for full-time, full-year work grew at nowhere near the pace of men's, indicating the extent to which the boom was concentrated in a few select sectors of the economy.



Low personal and corporate taxes, two decades of stagnant spending on redistributive programs, a move toward non-union, part-time, precarious, or otherwise "flexible" labour policies, deregulation, and privatization have all contributed to rapidly growing inequality, the likes of which we have not seen since the years immediately preceding the Great Depression.

At the same time, Alberta families spend more on household necessities – like child care, utility bills, car insurance, and education user fees – than anywhere else in Canada.[15] Cuts to public services disproportionately affect ordinary people while the number of super-wealthy individuals continues to grow.

[15] Parkland Institute, "*More than Nickels and Dimes*," Shannon Phillips, February 2010.



Unjustified Attacks on Public-sector Unions

In some corners, the recession has triggered attacks on public-sector unions and workers as a means for governments to lift their budgets out of deficits. This isn't just about budget deficits. There is an agenda here, an agenda to systematically dismantle public sector unions, weaken civil society and allow greater corporate and control of our governments.

Across Canada and the United States, right-of-centre institutes and political parties have wrongly targeted public-sector unions for huge wage cuts and impaired bargaining environments. In Canada, the basis of these attacks is a report by the right-wing Frontier Institute for Public Policy.

In one of its reports, the Frontier Centre careful gerrymandered statistical data in order to give the impression that wage growth of members of public-sector unions has grown at a far higher rate than those of the rest of the workforce.

There are two main reasons for this supposed difference in the rate of growth of wages of private and public sector workers. Firstly, the Frontier Centre effectively chose 1998 as the starting year of the data – the year following the immense gutting of the federal and Alberta public service. In Alberta, the number of full-time government positions dropped by almost 6,000 between 1989 and 2010, a 17-per-cent decrease. In 1998 alone, over 2,000 government employees lost their jobs. At the same time, Alberta's population grew by nearly 50 per cent from 2.4 million to 3.6 million.

Thus part of the rate of increase of public-sector workers' wages reflects the cost of privatization, not collective bargaining. Before Premier Klein's shortsighted and punitive cuts to the Alberta public service, government employees included front-line workers in the registries and working to maintain our roads and highways. When those front-line workers were cut from the civil service, their positions disappeared but the public purse kept paying for many of the tasks they once did. Expenditures on services did not decline, but the number of government positions did.

The public service in 1998 was a different institution than in the early 90s. By then, the majority of government front-line and "blue-collar" workers were laid off. The remaining ranks were mid-level managers and administrators of which there are few comparable positions in the private sector. Coming out of a period of lay-offs and wage freezes, it is little wonder that wages increased as the province and nation moved from recession to economic growth.

The real issue this report highlights, although inadvertently, is the stagnation of low- and middle-income wages. Public-sector wages have not grown by leaps and bounds, but by comparing the average wage gap between public administrators and the rest of society the report's authors attempt to give that very impression. The reality is that public-sector unions have negotiated fair wage increases for their workers. In Alberta, these increases are in line with the province's average weekly earnings index. The point is not that public sector wages have grown too fast, it is that there is profound wage stagnation for most of Canada's other employment sectors.

This is especially true in traditionally service oriented industries, such as retail trade and accommodation and food services. Wages in these sectors and others like them have remained abysmally low for the last 20 years.

Comparing civil servants' wages to the average wages of a group of workers that include some of Canada's lowest paid workers is of limited value, to say the least. A better comparison would be to look at the education and experience level of civil servants relative and compare that to the wages of other workers in other sectors. On this level, federal and provincial civil servants may actually be undervalued. For example, in Alberta, workers with university degrees, diplomas or certificates above a bachelor's degree have an average wage of $79,471.[16] However, the average wage of a permanent full-time Alberta government employee last year was only $70,619.[17]

Alberta Does Not Collect Enough Revenue: Corporate Taxes

Small Business and General Corporate Tax Rates

In 1999, the general corporate income tax rate was 15.5 per cent and the small business tax rate was 6 per cent.

Today, the rates are 10 per cent and 3 per cent respectively.[18]

[16] Canada, 2005 Census

17 Government of Alberta, Corporate Human Resources Annual Reports, http://www.chr.alberta.ca/AboutUs/DocList5.cfm?cl=2

[18] Alberta government, "*Current and Historical Alberta Tax Rates*," January 20, 2010, http://www.finance.alberta.ca/publications/tax_rebates/rates/hist1.html accessed July 30, 2010

	AB	BC	SK	MB	ON	QC	NB	NS	PE	NL
Corporate Taxes										
General	10	11	12	12	14	12	12	16	16	14
Small Business	3.0	2.5	4.5	2.0	5.5	8.0	5.0	5.0	2.1	5.0
Capital Taxes										
General				0.30	0.23	0.24		0.15		
Financial Institutions		1.00	3.25	3.00	0.68	0.73	3.00	4.00	5.00	4.00
Retail Sales Tax		7.0	5.0	7.0	8.0	7.5	8.0	8.0	10.0	8.0
Gasoline Tax	**9.0**	18.0	15.0	11.5	14.7	15.2	10.7	15.5	14.5	16.5
Tobacco Tax	**40.00**	37.00	36.60	35.00	24.70	20.60	23.50	33.04	39.90	36.00

Corporate Profits

Alberta's corporate profits soared since 1989. Twenty years ago, per capita corporate profits were $3,600 per Albertan; by 2008 they had skyrocketed to $15,500 per citizen, making a clear case that Alberta can well afford to upwardly adjust its general corporate tax rate.[19]

Corporate profits grew 314 per cent from 1989 to 2008, even after adjusting for inflation and population growth.

Corporate Profits as a Share of the Economy

Another way to look at the growth in corporate profits is to examine their share of the economy.

Corporate profits more than doubled their share of the economy from 1989 to 2008, rising from 9.6 per cent of the total Alberta economy to 22.6 per cent.

At the same time, provincial spending on health, education, and other services has dropped as a portion of the economy. While corporate profits are a growing part of our economic output, government investment in services dropped from 22 per cent of GDP to about 14 per cent of GDP. Our spending on services, infrastructure, and the public sector is simply not keeping pace with economic growth.

[19] Kevin Taft, Mel McMillan, and Junaid Jahangir, *Follow the Money: Where is Alberta's Wealth Actually Going? A Profile of Key Public and Private Sector Economic Trends in Alberta, 1989-2009*. May 2010.

What We Could Do in Alberta: Laying the Foundation for Permanent Prosperity

Alberta has tremendous potential to build a different kind of economy, and there are short and long-term proposals for how that can be done.

If we want ideas for what we can do today, let's start with the easy stuff. For example, Alberta could return to 1999 corporate tax rates (15.5 per cent), which would put square on the national average. If we were to make those adjustments – without touching the small business rate or other forms of corporate tax - we would generate over a billion dollars in extra revenue.

Table 4 – Corporate and Small Business Tax Potential Revenue Estimates (x$1,000,000)

Applied Corporate Tax Rate on 2006	10%
Applied Small Business Tax Rate on 2006	6%
2006 Corporate Tax Revenue	$1,930
2006 Small Business Tax Revenue	$297
1999 Corporate Tax Rate applied to 2006 Revenue	$2,992
1999 Small Business Tax Rate applied to 2006	$594
Revenue difference	$1,359

Note: Alberta Finance and Enterprise estimates revenue per unit of tax for the 2006-07 tax year at $193 per unit of corporate income tax and $99 per unit of small business tax.[20]

Leaving an increase in small business taxes aside and only applying the old corporate tax rates of 15.5 per cent, the province could generate an additional $1,062 billion annually.[21]

Other Forms of Taxation: Capital Taxes, Financial Institutions, and the Gasoline Tax

A value-added sales tax: why not?

A retail sales tax is the fastest, easiest, and most lucrative tax a government can implement. It raises revenue like no other form of tax. Alberta certainly has room for a retail sales tax, given that we're the only province in Canada without one. But is it a good idea?

A sales tax is deeply unpopular among ordinary people, for good reason. As demonstrated above, average Albertans only saw increases to their market incomes in the last couple of years of Alberta's runaway economic boom – before that, our market

[20] Government of Alberta, "*Budget 2010*," page 155, http://www.finance.alberta.ca/publications/budget/budget2010/tax-plan.pdf. Accessed July 30, 2010.

[21] Tony Clark, custom tabulations for Alberta Federation of Labour, based on Social Policy Simulation Database, Statistics Canada.

incomes were stagnant since the 1970s. What we do earn is being chewed up in new ways, too: Our wallets seem constantly besieged by user fees and other consequences of government cuts and privatization. Meanwhile, lower and middle-income people got small tax cuts from Alberta's 2001 flat tax changes, but the very-wealthy were gifted tax cut by almost a quarter.

A sales tax, like the flat tax, is inherently regressive. We all pay GST regardless of what we earn. As a result, it chews up more of a low-income person's disposable income than it does a higher-income person's. This is why conservatives don't mind proposing sales taxes – they take the pressure off governments to tax the wealthy and corporations, and place more of the burden on ordinary people.

Similar problems exist with value-added taxes (VATs). A value-added sales tax only applies to certain luxury items, and a VAT is a staple of most European Union members' revenue mix – so it is a tried and true way of raising revenue. If a VAT were proposed as a truly luxury tax, it may have some appeal as a way to raise more revenue in a stable and predictable way. However, such as tax would be necessarily complicated, difficult to explain to the public, and would have to tax at a level of detail (e.g., a VAT applies to certain kinds of "luxury" cars versus "economy" cars) that would be difficult, if not impossible, to regulate at a provincial level.

The Other Side of the Ledger: Spending

Reality Check: Alberta's Spending is Not Out of Control.

When adjusted for population growth and inflation, Alberta spends the same amount as other provinces on public services like health, education, and social services. When adjusted for the size of the economy, Alberta spends half of what it did twenty years ago.

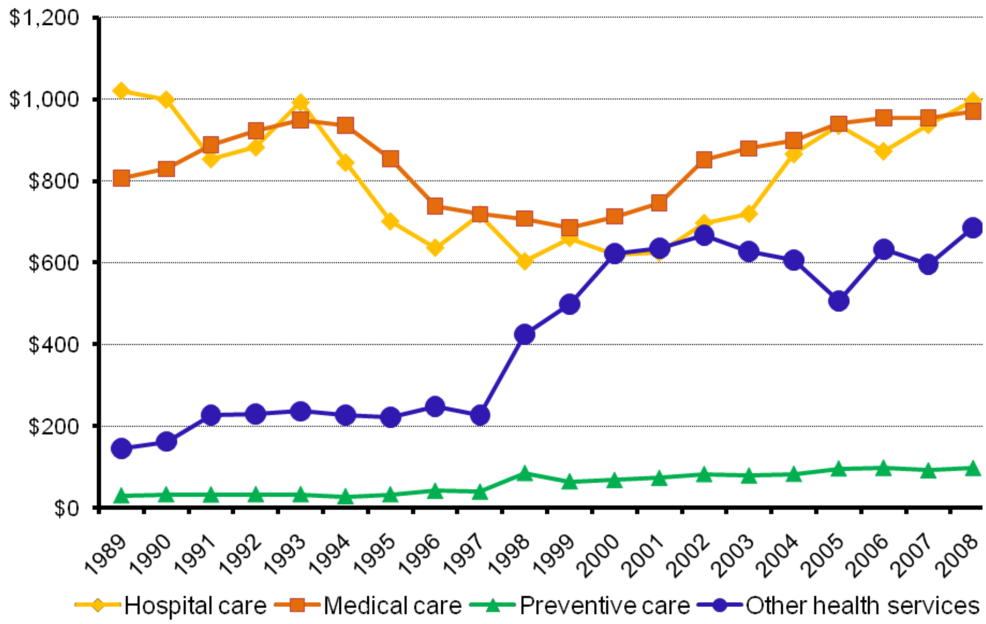
In their study, "*Follow the Money: Where is Alberta's Wealth actually going?*", MLA Kevin Taft, with assistance from University of Alberta economists Mel McMillan and PhD candidate Junaid Jahangir graphically illustrates Alberta's stagnant spending on public services.

Health-Care Spending

Spending on health care has marginally increased since 1989, to be sure, but it is useful to understand which sectors of health care have seen cost escalations. Spending on medical care and hospital care has fluctuated wildly, but the overall trend line for per-capita, inflation-adjusted spending on clinics, health professionals, doctors, and hospitals is flat. Spending on prevention has remained more stable, but also has not increased significantly since 1989.

Spending on other ancillary services – diagnostic tests and pharmaceuticals for example – is where health-care spending has increased. In other words, areas where there has been increased privatization have seen increased costs, but spending on the overall health-care system has stayed the same since 1989, despite an aging population and cries that health-care spending is somehow spiraling out of control.

Figure 7.9: Alberta Health Component Expenditures (per capita 02 $)

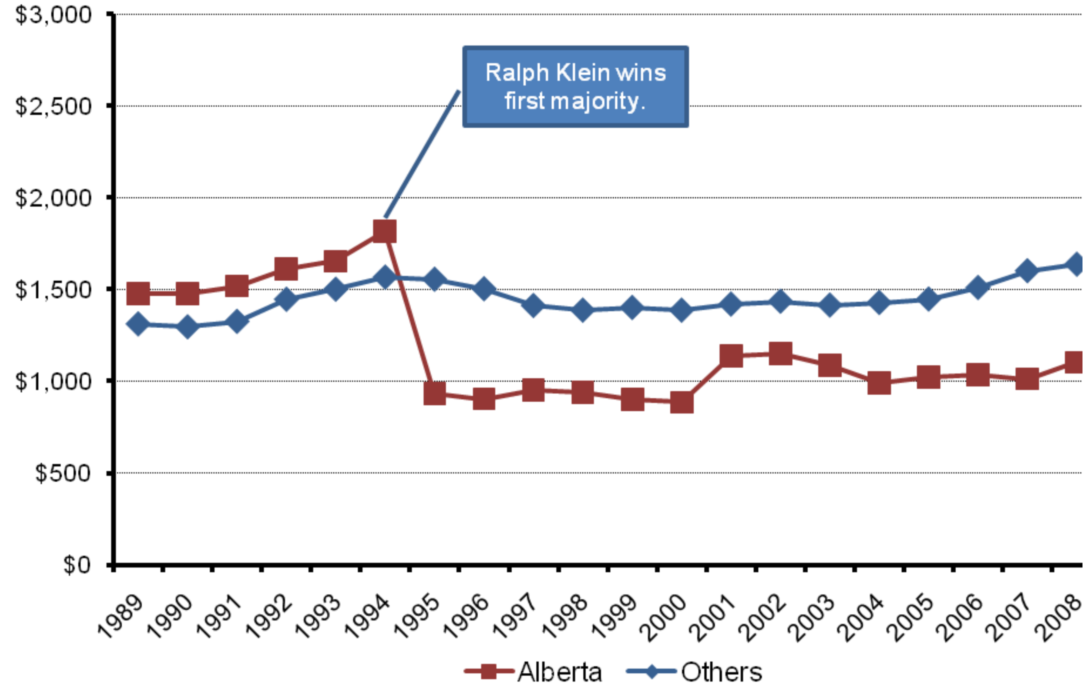


Source: CANSIM.
Hospital care: v645793, Medical care: v645794,
Preventive care: v645795,
Other health services: v645796; CPI (2002=100): v41694625; Population: v469503
See Appendix C, Table C13

Social Services Spending

Per person and adjusted for inflation, the Taft report shows Alberta spends the least on social services (social assistance, programs for people with disabilities, and child welfare programs) of any province in Canada. During the 2005-2008 boom, for example, Alberta spent 33 per cent less on social services than the average of other provinces.

Figure 7.3: Social Services Expenditures (per capita 02 $)

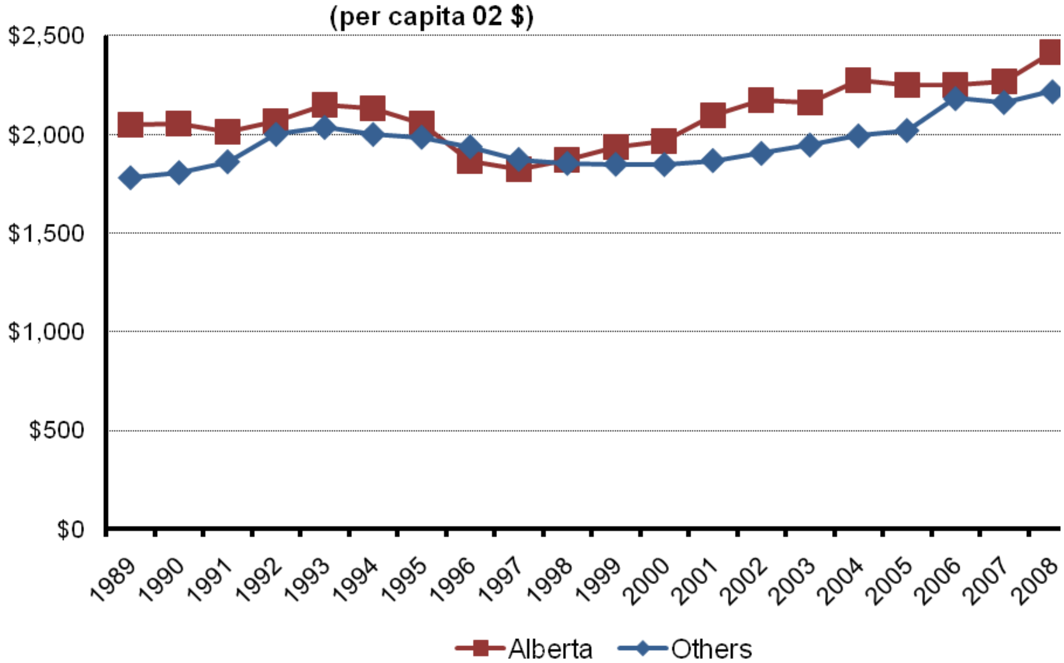


Note: Provincial and Local government consolidated data
Source: CANSIM.
Social Services: AB v632444, Canada v631850;
CPI (2002=100): AB v41694625, Canada v41693271;
Population: AB v469503, Canada v466668.
See Appendix C, Table C5

K-12 Education

Alberta's spending on K-12 education programs is slightly higher than the rest of the Canadian provinces, likely reflecting a younger population.

Figure 7.4: K-12 & Post Secondary Education Expenditure
(per capita 02 $)



Note: Provincial and Local government consolidated data
Source: CANSIM
Post Secondary Education: AB v632453, Canada v631859,
CPI (2002=100): AB v41694625, Canada v41693271,
Population: AB v469503, Canada v466668
Appendix C, Table C6

Outcomes: Poverty as a Case Study

What kinds of outcomes do we achieve for our spending on programs? The foregoing analysis shows that Alberta's spending on health, education, and social services is not out of control – and so the question is not whether we are spending too much, but whether we are not spending enough.

Evidence shows that we could boost our spending in some priority areas and achieve better social and economic outcomes. We all know about the crises in health care and long-term care. We all know about crowded classrooms and high tuition fees. But there are other social and economic consequences to our failure to invest in adequate public services. As an example, the issue of poverty and inequality is examined below.

Alberta has the lowest social assistance rates in Canada. We are also in a shrinking minority of provinces without a provincial child-benefit program. Lax labour laws, low minimum wages, and low levels of investment in housing further conspire to make poverty a grinding reality for tens of thousands of families in our wealthy province.

Alberta’s child poverty rates are notably high, but poor children live with poor parents. Our rates of poverty and inequality are significant for what they say about our economy. Over two-thirds of children who live in poverty lived with one or more parents who work – pointing to the prevalence of low-wage work. Furthermore, Albertans tend to experience a greater ***depth*** of poverty than people in other provinces – in Alberta, fewer people live below the low-income cut-off (this was at least true during the 2003-2007 economic boom), but those who do live in poverty for longer and at a lower standard of living than in other provinces. In other words, in Alberta, if you are poor, you fall further and getting out is harder.

There is a human face to every one of the statistics enumerated above. Our failure to address Alberta’s revenue crisis means the human tragedy of poverty, inequality, illness, and homelessness will continue unabated. The only way to address these issues is via our collective institutions – governments, school boards, clinics, family centres, daycares, municipalities, and other forms of collective action. We cannot do any of that work without appropriate resources.

Some Thoughts on Political Strategy: A Grown-up Conversation on Taxes

Labour's Role in Leading the Conversation

An unsentimental and reality-based assessment of Alberta's political landscape suggests that the labour movement is the only organizational force that is capable of putting such complex issues as taxes and royalties on Albertans' agenda.

The task would be difficult in any jurisdiction, but Alberta presents special challenges. Alberta is home to the world's most powerful oil and gas corporations, who do not take kindly to having their privileged financial arrangements challenged. If the royalty debacle of 2007-2008 was any lesson, it is that there is a yawning chasm between what Albertans tell their politicians they want (a fair royalty for their oil and gas) and what they end up getting (some boutique changes followed by wholesale back-pedaling).

No one should be under any illusions that building a movement for real change to Alberta's revenue system will require resources, and there are scarce resources for progressive forces outside the labour movement in our province. Alberta's organized workers must ask themselves, *if we are not up to this task, then who is?*

Talking Taxes: Risks and Opportunities

Conservative ideological saturation, particularly in the media, has made taxes a taboo subject. Thirty years of conservatives singing “austerity forever” in every possible public venue can sometimes make demands for expanding public services (or at least putting them on more stable footing) tantamount to political suicide. Lower and middle-income people’s frustration with stagnant wages, declining working conditions, disappearing pensions, increasing user fees and skyrocketing cost of living has been successfully exploited by the right to be directed at taxes, not at privatization, deregulation, or de-unionization. This is why we must be professionals about how we talk to the public about government revenues and devote the necessary resources to learning how to communicate the issue.

The relatively good news is that conservatives have established a very predictable script, or frame, for how they talk about taxes. First, conservatives are right that ordinary people are feeling the squeeze on their pocketbooks. Families *do* feel like they are falling further and further behind, and data shows this isn't just a feeling – it's based on three decades of real evidence.

The first rule of political communications is to know our audience. The labour movement must therefore take defensible positions on fixing Alberta's revenue crisis. Asking lower or middle-income Albertans to pay more in personal income taxes or to wrap their heads around a regressive sales tax, is neither politically smart nor economically wise. We need to make arguments that put the spotlight on where real imbalances in our revenue system lie and that is with royalties, corporate taxes, and very wealthy individuals.

Second, conservatives argue that there are no alternatives and that government cupboards are bare. This paper has shown this claim to be patently false. We need to find ways to talk about Alberta's enviable financial position. Most Albertans understand how wealthy we are. Many Albertans understand that the usual knee-jerk conservative reaction to talk of revenue reforms – that companies will simply pick up and relocate if we restore balance to tax rates – is so unrealistic as to be laughable in the Alberta context. Only Alberta has vast deposits of bituminous oil sands, the world's most important and strategic resource. Only Alberta has the highest number of university-educated workers in Canada, the highest quality roads and associated infrastructure for private industry, and one of the highest quality health-care systems and health-research infrastructures in the world. Outside the oil sands, we remain a significant source of coal and natural gas, a national leader in wind power generation, and a regional hub for financial services industries. Companies locate here because we have everything they need, including access to the world's most strategic resource, not because our corporate tax rates are lower than most countries in the world.

Third, conservatives argue that government cannot do anything right. This view is offside most Albertans' view of our health-care system, education system, and other social services. Even in the most conservative province in Canada, people understand the value of public services, are willing to pay more for them, and recognize that we could have some of the highest quality services in the world.

Several recent polls confirm that Albertans value public services and are even willing to pay more for them. For example, a CUPE poll in September 2010 showed that 46 per cent of Albertans were willing to pay more in taxes if it meant improving services. The highest number of people willing to pay more lived in Calgary. This is probably why

Mayor Nenshi was able to build his campaign for mayor of Calgary in fall 2010, while his tax and service-cutting rivals' campaigns stalled.

In yet another striking example, a recent internal poll done for the Progressive Conservative convention showed 76 per cent of Albertans think we have a pressing social deficit. In that same poll, 65 per cent of Albertans said that decisions on what to fund should be based on need, not ability to afford the programs.

The PC poll also showed that by a 2:1 margin, Albertans believe that funding social programs is more important than eliminating the deficit (which in any case doesn't exist!). Sixty per cent of Albertans favour funding programs; only 28 per cent favour reducing the "deficit."

Revenues as Alberta's "Third Rail"

The labour movement must be aware that talking taxes and royalties is a delicate topic – a "third rail" of politics – because it cuts to the heart of power. It slices through surface rhetoric and points squarely to the cause – and solution – to many of the issues facing the province, including redistributing wealth and closing off new avenues of profit-making for large corporations, such as health or seniors' care. As a consequence, very powerful forces will allay themselves against us, and the reaction, if we gain traction with our demands, will be fierce. It is for this reason that we must be careful and factually iron-clad in our analysis, number-crunching, and policy prescriptions. This is not a time for sloppiness, which means the labour movement needs to be serious about the kinds of resources it devotes to this issue.

Most political communications are not fact-based; the best communicators highlight values rather than statistics. Conservatives know this all too well, which is why their arguments are rarely based in available economic evidence, but that fact scarcely seems to matter to their overall political success. While progressive forces should indeed stick to talking about our values rather than our theoretical or statistical correctness, unlike conservatives, we are not given a "pass" in the media if our arguments are not properly costed or do not stand up to rigorous fiscal standards. This, again, points to the need for the labour movement to be serious about the kinds of resources it devotes to this issue. A well-researched basis for our positions must be linked with a professional and deliberate communications strategy that is framed by the values we share.

How to Talk About Taxes

In planning a budget, whether it is in a family or when organizing the affairs of an entire province, it is best to start with what we value most, and then find reasonable and balanced ways to pay for those most cherished values. Public opinion polls show Albertans want access to high quality public health care, great schools and services for children, a dignified retirement and old age, and public infrastructure that is well-maintained and able to serve the needs of the people and the private sector alike. Those polls also show, without fail, that Albertans understand that those services are not free.

Interestingly, polls show that Albertans actually have quite a sophisticated view of the value of public services, and know that if they want better quality services, someone has to pay for them. For the vast majority of the population, tax cuts are far lower on the priority list than maintaining high quality public services.

How to Organize Around Revenue Reform

Committing significant resources to budget-season discussions is one way to put the revenue issue on Albertans' political radar and make it stay there. This means annual commitments to communications elements, outreach activities, and further research.

For such a large undertaking and such monumental changes to how Alberta is governed, the labour movement needs to get serious about training younger generations of activists, educators, and opinion leaders as well. Conservatives know all too well that there is no substitute for young, informed, and articulate leaders to advance their various causes – this is why conservative think tanks commit serious resources to internships, training, and outreach. We must do the same.

Third, the labour movement must work with its various partners to get on the same page with respect to revenue reform. Allies can come from unlikely places, such as municipalities, small businesses, and small, incremental, and/or targeted changes achieved via smart lobbying or other more incrementalist political tactics. We must be ready to use all of the tools in the political toolbox if we want to be successful.