Submission by the

Alberta Federation of Labour

to

The Honourable Ron Liepert

Minister of Alberta Finance

on Budget 2012

December 9, 2011

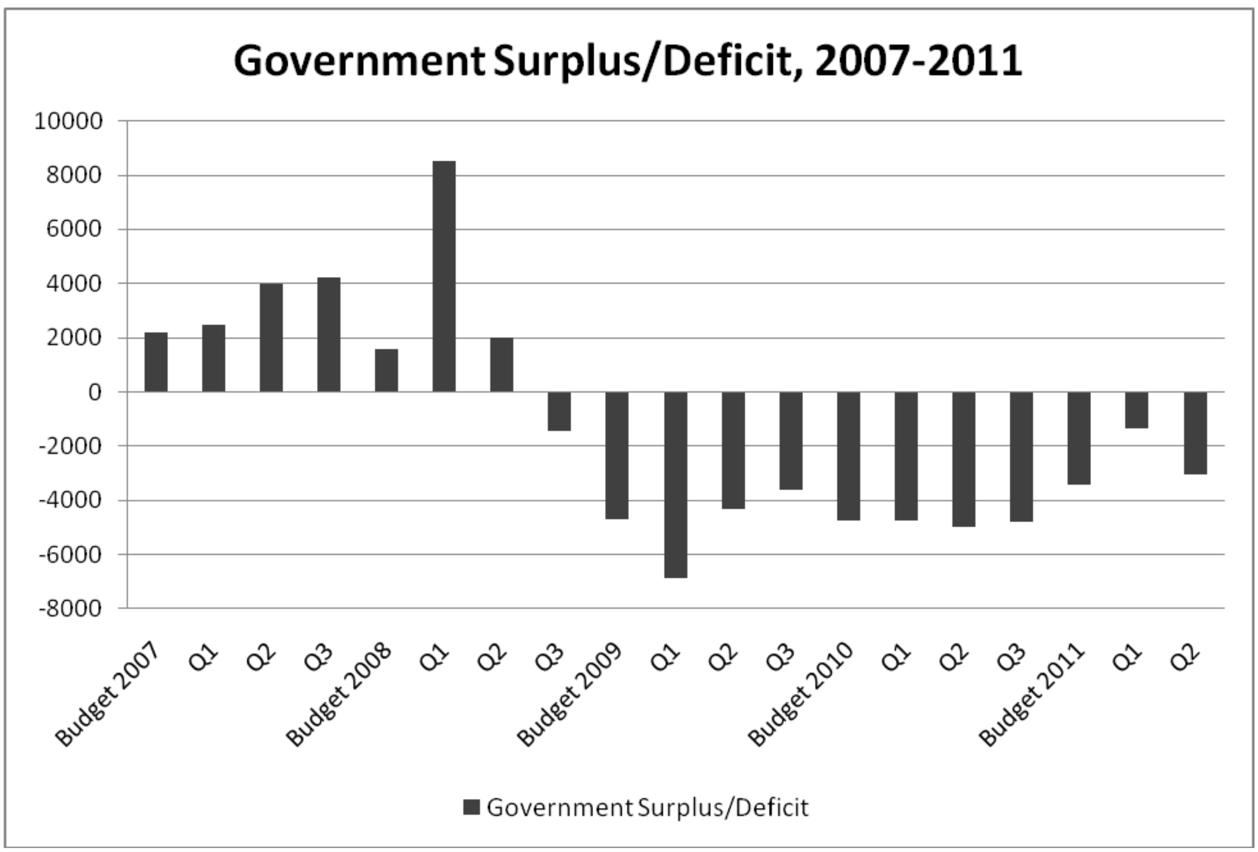
2012 Alberta Budget Submission

December 2011

The Context: The persistent deficit

Alberta is a place of immense prosperity, and yet it is not reaching all Albertans or providing what they care about most: a strong quality of life for their families and a prosperous future for their communities. With this in mind, the 2012 Alberta budget must address the core barrier that blocks this wealth from benefiting all Albertans. Failing to remove this barrier would mean the province would fail Albertans in providing that which they have consistently demanded of their government: strong public services.

Despite our prosperity, the Government of Alberta has run a deficit since late 2008. Despite assurances that the "economy has recovered from a deeper recession than expected,"[1] we continue to run a deep and persistent deficit; the deficit is currently forecast at $3.05 billion, up from a projected deficit in the first quarter of $1.344 billion.



(Source: Government of Alberta budget and quarterly update documents)

[1] Hon. Lloyd Snelgrove, "2011 Budget Address," February 24, 2011

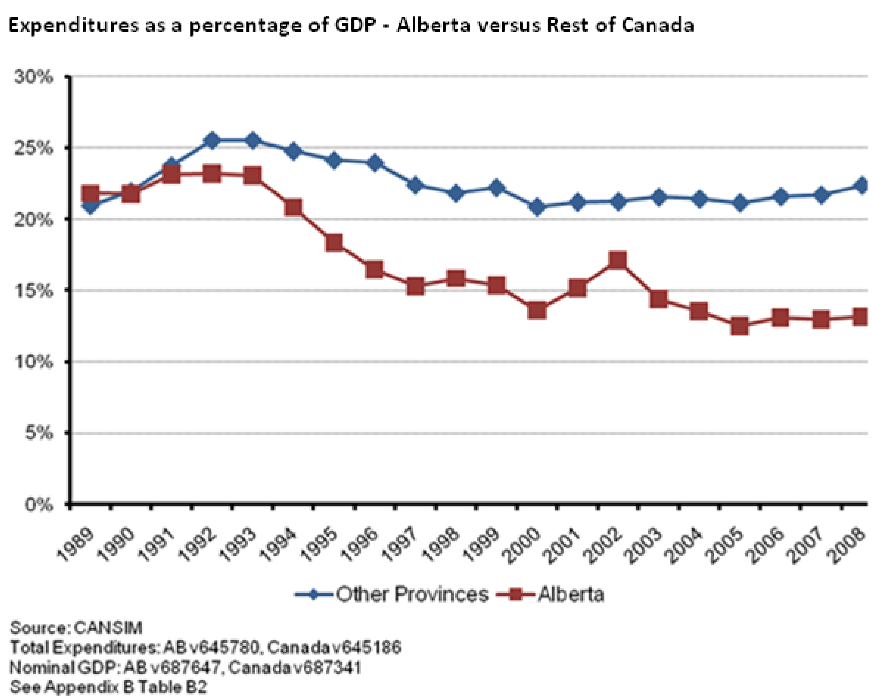
The government deficit has led to a discussion in some circles of austerity and cuts to public services. Premier Redford herself has warned of “unprecedented discipline to public spending”[2] and has promised program reviews and alternative service delivery.

In other words, the message from government to Albertans is one of lowered expectations. We’re told that we’re to get by with fewer and poorer quality public services.

The Alberta disconnect

We’re asking the wrong questions when it comes to the deficit. Asking the wrong questions leads to the misguided conclusion that painful comprises to the quality of public services are the only way forward. Governments have become accustomed to blaming spending for the problem and look to slashing spending on public services as a necessary solution. But, the first question shouldn’t be, “Where do we cut?” Instead, we should ask, “Why do we have a deficit in the first place? Why do we keep running out of money?”

Alberta’s deficits are real, but the assumption that they’re caused by spending is simply inaccurate. On the contrary, when the size of our economy is factored in, our spending has gone down, and not by just a little. Expenditures as a percentage of our GDP peaked in 1992 at just over 23 per cent. By 2008, expenditures as a percentage of our GDP dropped to 13.5 per cent, a 41-per-cent drop.



(Source: Kevin Taft, Junaid Jahangir and Mel McMillan, “Follow the Money: Where is Alberta’s wealth actually going? A profile of key public and private sector economic trends in Alberta from 1989 to 2008”)

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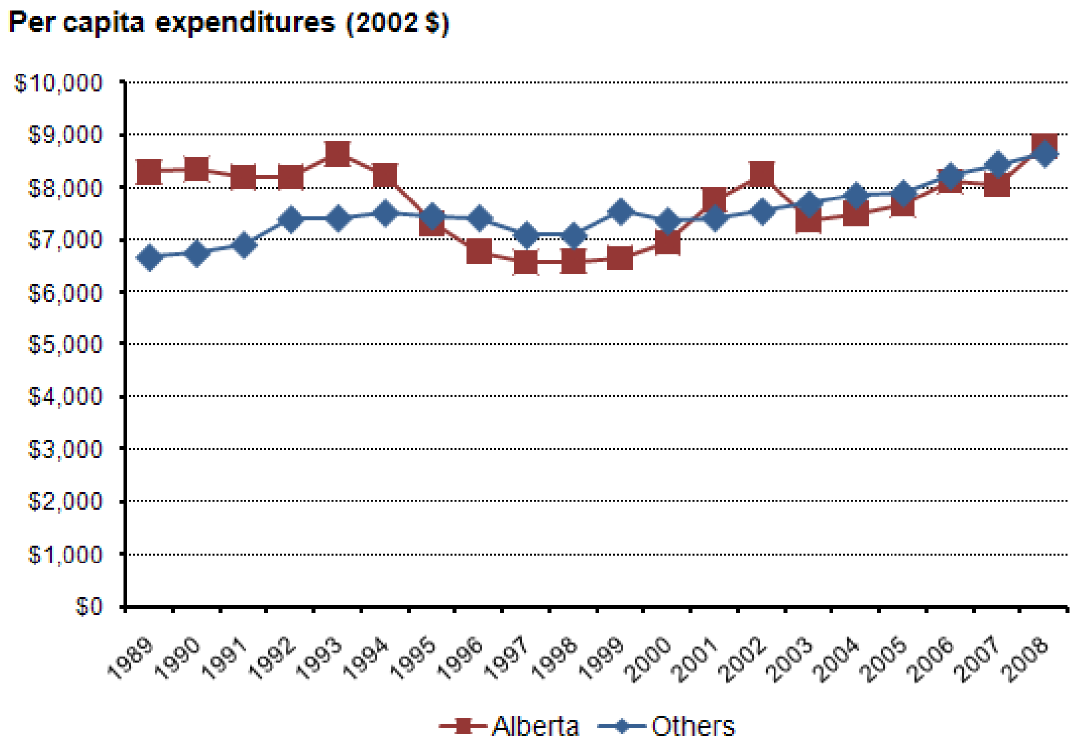
2 Premier Redford as quoted in iNews880, “Redford marks 60 days with warning about tough budget ahead,” December 2, 2011, http://www.inews880.com/Channels/Reg/LocalNews/story.aspx?ID=1580935

As the previous graph shows, we do not spend more on public services than other provinces when the size of economy is taken into account. In 1989, Government of Alberta expenditures were 21.8 per cent of our province's Gross Domestic Product (GDP). By 2008, this figure dropped to 15 per cent - nearly a 40-per-cent decrease in spending relative to the size of our economy. And yet, a hot economy demands more, not less, spending on public services: visiting workers need to access public services like health care, public servants are needed to ensure businesses people are well served, and professionals are needed to work for the government to ensure revenues are collected and development is done in a responsible manner.

There's also a perception that Alberta spends more on public services than other provinces. Once again, the facts tell a different story.

The truth is that, per-capita expenditures on public services in Alberta are about the same as the rest of Canada. Alberta's real per-capita expenditures have remained remarkably in line with the rest of Canada's between 2003 and 2008. For those years, real per-capita government expenditures for Alberta and the rest of Canada were in the high $7,000 to low $8,000 range.

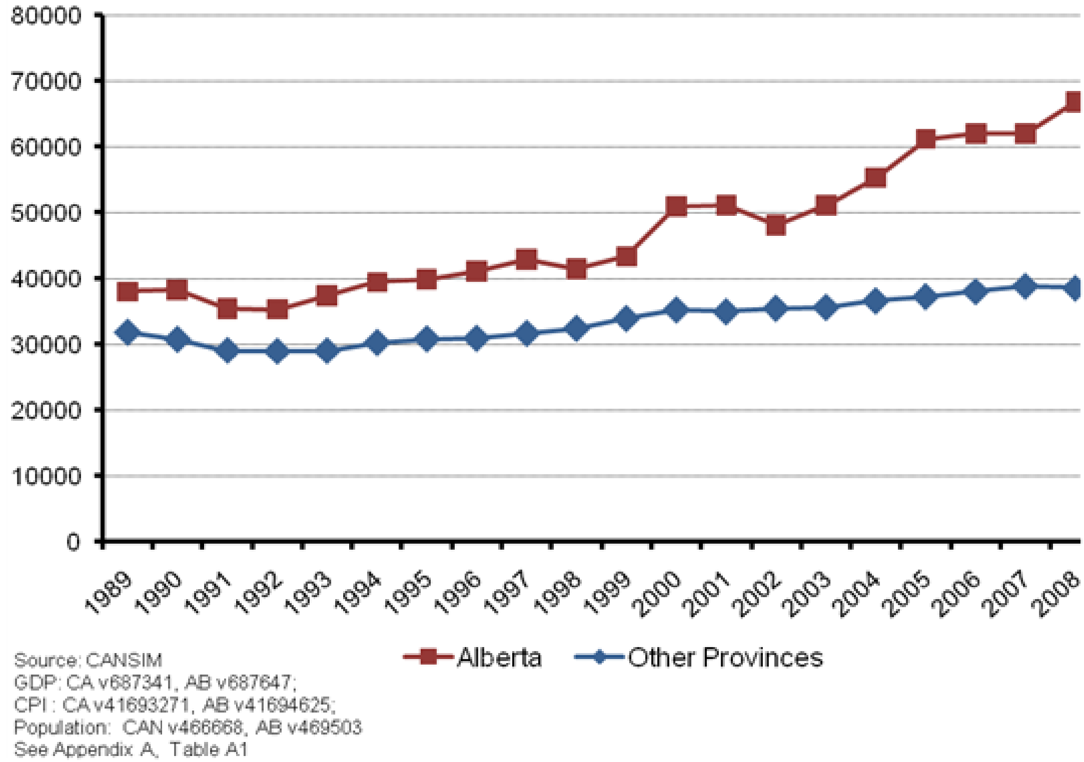


Source: CANSIM
Total Expenditures: AB v645780, Canada v645186,
CPI (2002=100): AB v41694625, Canada v41693271,
Population: AB v469503, Canada v466668
Appendix B, Table B1

(Source: Kevin Taft, Junaid Jahangir and Mel McMillan, "Follow the Money")

What this tells us is that if there is any province that should be able to afford high-quality public services, it's Alberta. By most measures, our economy is healthy and large. Our real per-capita GDP is far and away larger than the rest of Canada – some $28,000 or 73-per-cent higher per Albertan in 2008 than in the rest of the country.

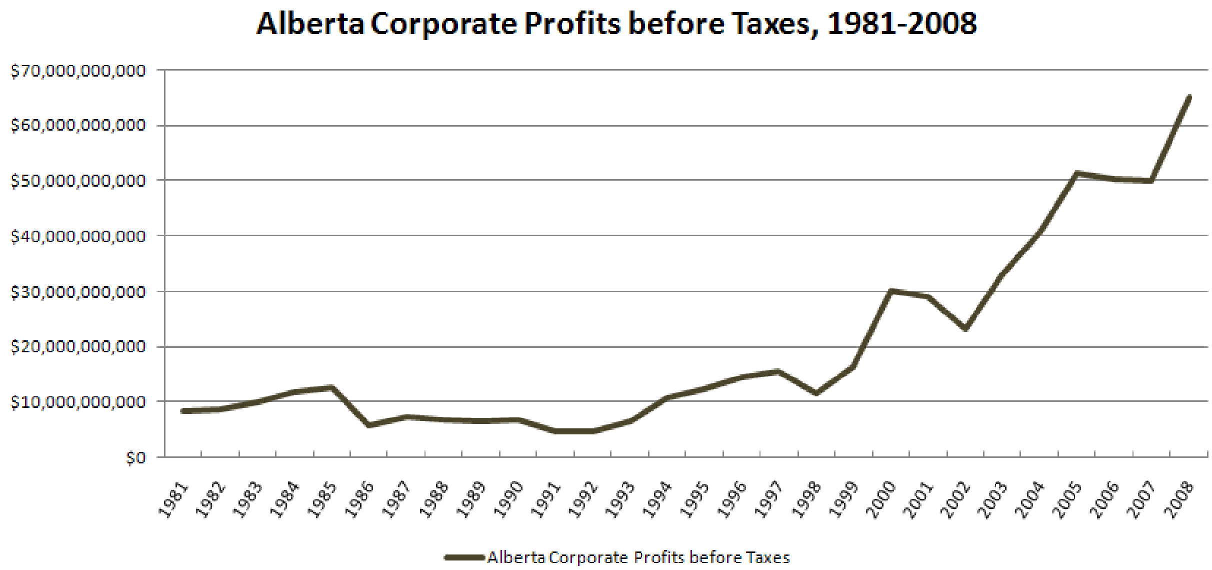
Fig. 3.1: Real GDP (per capita 02$)



(Source: Kevin Taft, Junaid Jahangir and Mel McMillan, "Follow the Money")

Corporate profits are also robust and show no signs of flagging. Between 1998 and 2008, Alberta corporate profits increased by 450 per cent. In the last year alone, corporate profits were up by 42.8 per cent.[3]

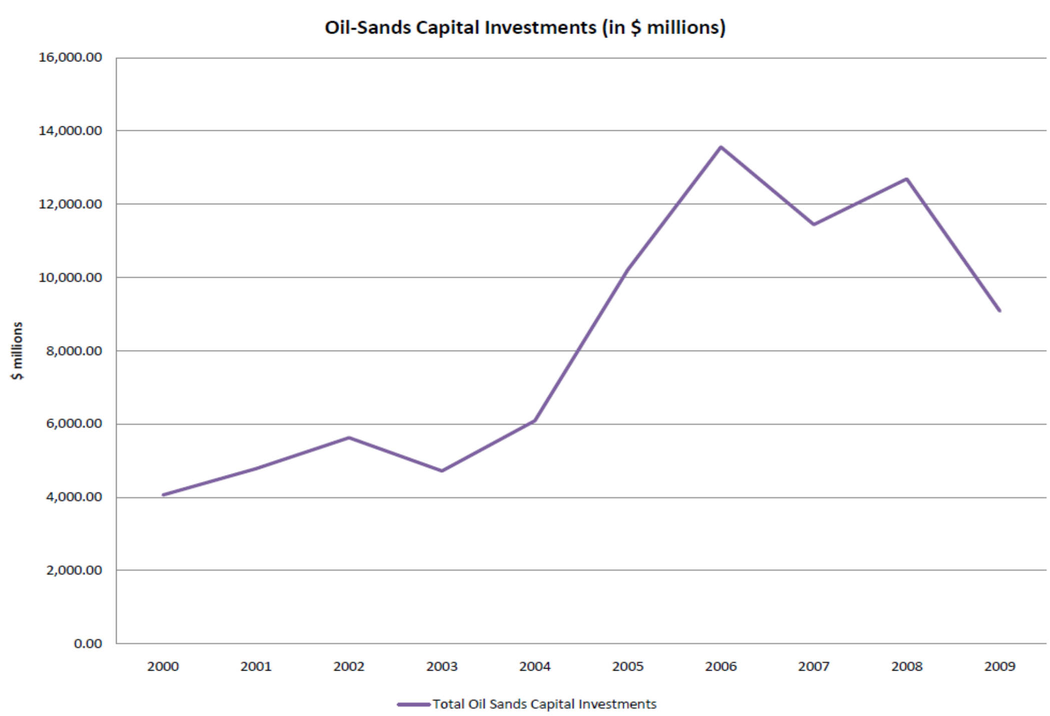
[3] Government of Alberta, "Budget 2011 – Economic Outlook"



(Source: Statistics Canada, CANSIM Table 384-0001)

Corporate profits now compromise a much larger share of the GDP. In fact, between 1989 and 2008, corporate profits more than doubled their share of the economy, going from 9.6 per cent in 1989 to 22.6 per cent in 2008.[4]

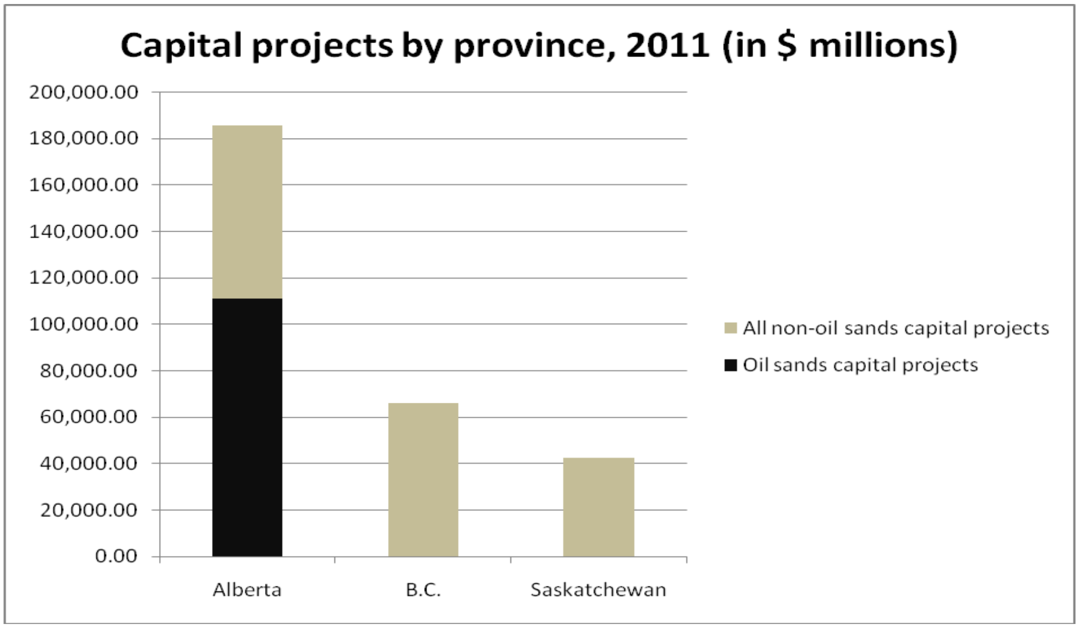
Furthermore, investment is up in key economic sectors. Capital investment in the oil sands is up from $4 billion in 2000 to $18 billion in 2011.



(Source: Government of Alberta, Major Capital Projects)

[4] Statistics Canada, CANSIM vector v687290

Even without oil sands investments, capital investment in Alberta outmatches our neighbours.



(Source: Governments of Alberta, British Columbia and Saskatchewan, Major Capital Projects)

Simply put, our economic pie is bigger than other provinces. Our economy is still far larger than other provinces on a per-capita basis, Alberta corporate profits are hitting new highs, and investments in capital projects are astronomical.

And yet, government expenditures have not kept pace with our economic growth.

So, if we have a better ability to pay than other provinces and the amount we spend on services is decreasing (that is, the share of the "pie" going to services is actually getting smaller even though the pie's getting bigger), then why do we keep running out of money?

All signs point to the problem being on the revenue side of the ledger, not the spending side.

The problem is revenue, so fix it

When looking for the real cause of Alberta's budget woes, the Alberta Federation of Labour feels strongly that the government should look closely at the revenue side of the ledger. The evidence is clear and incontrovertible: we are running deficits even during strong economic times because tax and royalty policies pursued by the government over the past 20 years have essentially blown a hole in the revenue base that the province needs to fund public services.

In other words, the cupboard is bare because we've decided to make it bare.

Taxation

Let's first take a look at the impact of taxation policy on revenue.

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 fallout of the flat tax's unequal effect on Albertans' pocketbooks is growing and greater inequality.

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 as Alberta's share rose. 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.

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%***	***-10.2%***

(Source: Alberta Federation of Labour, custom tabulations using Statistics Canada's Social Policy Simulation Database and Model)

Corporate tax cuts have cost the Albert Treasury billions of dollars. In 1999, the corporate tax rate was 15.5 per cent. The Government of Alberta estimates that a 1-per-cent change in the corporate tax rate translates to about a $330-million change in revenue for the latest fiscal year. It follows that we've lost about $1.8 billion in revenue from foregone corporate taxes.

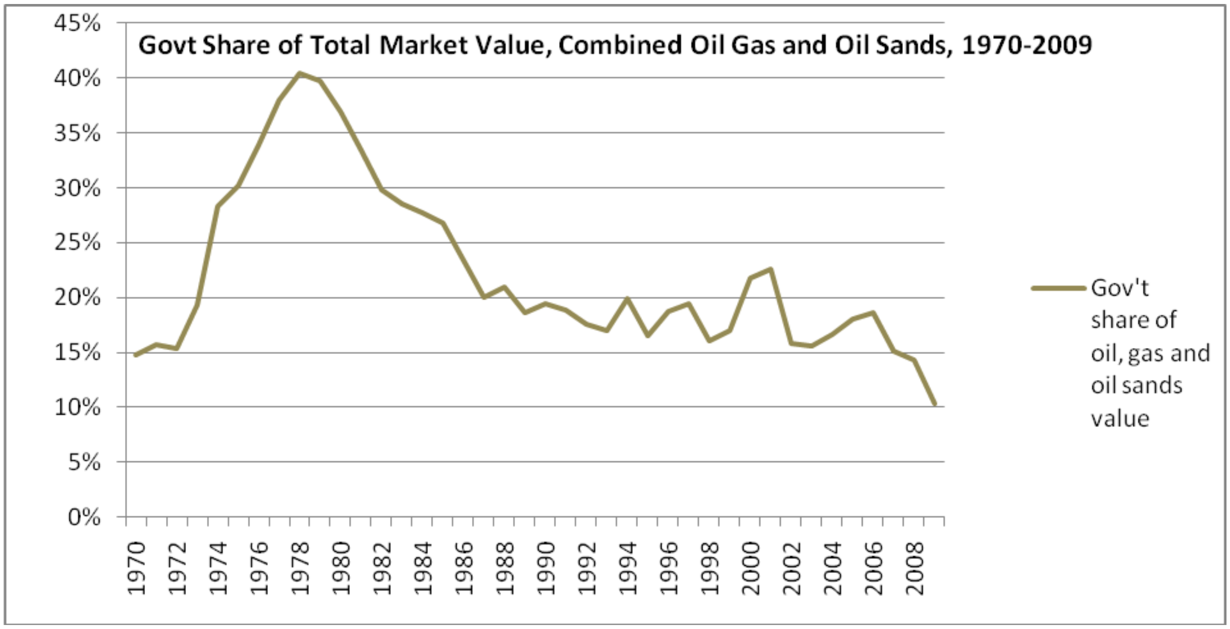
Alberta now has one of the lowest corporate tax jurisdictions in the G7 economies. This is a gift to the U.S. Treasury, but has little benefit here. American companies are required to pay 35 per cent in corporate taxes between Canada and the States. So the lower Alberta and Canadian corporate tax rates go, the more money goes to the American government. This results in a wealth transfer from Canada to the U.S. government of at least $1.1 billion a year. [5]

Royalties

For years now, the Government of Alberta failed to meet its own targets on collecting value on non-renewable resources on behalf of the Alberta public. The Parkland Institute estimates that the $37 billion has been lost over the last decade by the government missing its targets on royalty revenues.[6]

[5] Parkland Institute, "Fixing What's Broken: Fair and Sustainable Solutions to Alberta's Revenue Problems"
[6] Parkland Institute, "Misplaced Generosity: Extraordinary profits in Alberta's oil and gas industry"

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. Those figures were put up against the percentage of economic rent that the government set as its own policy.



(Source: Parkland Institute, "Misplaced Generosity: Extraordinary profits in Alberta's oil and gas industry")

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. Furthermore, 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. Figures from the Government of Alberta show that the province collected on average only 5.7 per cent of the total revenue of oil sands sales from 1997 to today.[7]

A study by the C.D. Howe Institute examined per-capita, inflation-adjusted revenues from Alberta's largest sources of oil and gas resource revenues. The results are shocking. In the early 1980s during 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

[7] Government of Alberta, "Royalty Archive – Oil Sands," http://www.energy.alberta.ca/About_Us/1702.asp#bitumen

developments and much higher global oil and gas prices, Alberta collected just $2,661 per citizen in non-renewable resource revenues.[8]

Furthermore, royalty giveaways like the Drilling Stimulus program have bled government coffers of billions. The Drilling Stimulus that ran between 2009 and 2011 cost the public $2.8 billion. The Drilling Stimulus contributed to over half of the government deficit for 2009 to 2011. Although the stated goal of the Drilling Stimulus program was to create jobs, nearly 8,000 jobs were lost in the oil and gas drilling sector despite nearly $3 billion in royalty revenues lost.[9]

The result of this lost revenue is that we're having trouble funding the things we value and the things we need to maintain our quality of life and keep us competitive, things like health care, education and infrastructure.

By not collecting adequate revenue, we're also offloading costs onto individuals and families.

The real problem is that our tax and royalty policies have blown a hole in our revenue base. The solution is to fix the hole, not the blame spending on public services Albertans need.

Revenue alternatives to fund what we value

The Alberta Federation of Labour recommends the Government of Alberta consider the following in order to shore up revenues to pay for the public services Albertans value.

a) Replace the flat tax with progressive taxation

Alberta's flat-tax system has been very generous to high-income earners. When the flat tax was first proposed in 1999, Albertans in the highest income bracket would see their taxes drop from 12.76 per cent to 10 per cent, middle-income earners saw a slight drop from 12.44 per cent to 12 per cent, but the lowest income bracket saw their income taxes increase from 7.48 per cent to 11 per cent.

Low-income Albertans saw their income taxes *increase* by 47 per cent, whereas high-income Albertans got a break on their income taxes to the tune of 13 per cent. Hardly fair taxation and the fallout has benefited the wealthy over time, as shown previously in this submission.

In fact, in the 2011 Budget Address, Hon. Lloyd Snelgrove, the then-Minister of Finance and Enterprise, bragged: "With any other provincial tax system, Albertans and Alberta businesses would pay at least $11 billion more in taxes each year…"[10] This failure to collect billions in revenue is a disturbing admission for a finance minister to make in an address on a budget with a $3.4-billion deficit. By the former Finance Minister's own admission, we could import the same corporate and personal taxation system here and still run a $7.6-billion surplus.

[8] Landon and Smith, CD Howe Institute Commentary. http://www.cdhowe.org/pdf/Commentary_313.pdf
[9] Alberta Federation of Labour, "Alberta's $2.9-billion Drilling Stimulus: Where did the money go?"
[10] Hon. Lloyd Snelgrove, "2011 Budget Address," February 24, 2011

b) Introduce a surtax on high-income earners

We could increase government revenues and shift the tax burden away from low- and middle-income Albertans by instituting a surtax on high-income earners. A surtax is simple, easy to understand and we already had a surtax system prior to the flat tax – 8 per cent on taxable income over $3,500 – so a return to this system would not be a complete surprise to many Albertans.

A surtax is a tax on a tax: it is a tax on income taxes already levied by the provincial government. Thus, a surtax would not negatively affect low-income Albertans in the way the flat tax did when first proposed. Only people paying Alberta income taxes would be subject to a surtax.

There are innumerable ways a surtax can be instituted. This flexibility, along with its simplicity, is another positive aspect. The surtax rate, along with the income-level cut-in (the level of taxable income to which it applies), can be adjusted with an eye on fairness and potential revenues.

For example, a 40-per-cent surtax on taxes over $15,000 would have yielded $578 million in 2006. Only Albertans with income over $100,000 a year would be affected thus counteracting, at least in part, the negative consequences of the flat-tax scheme.

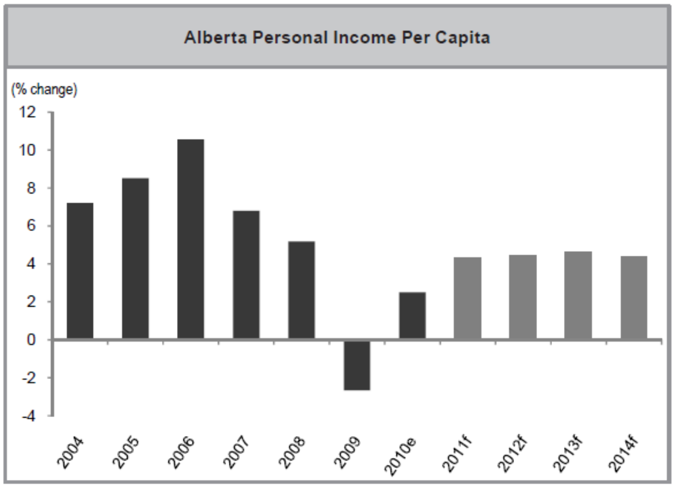
Impact of a 40-per-cent Surtax with $15,000 cut-in on Alberta Income Groups (2006)

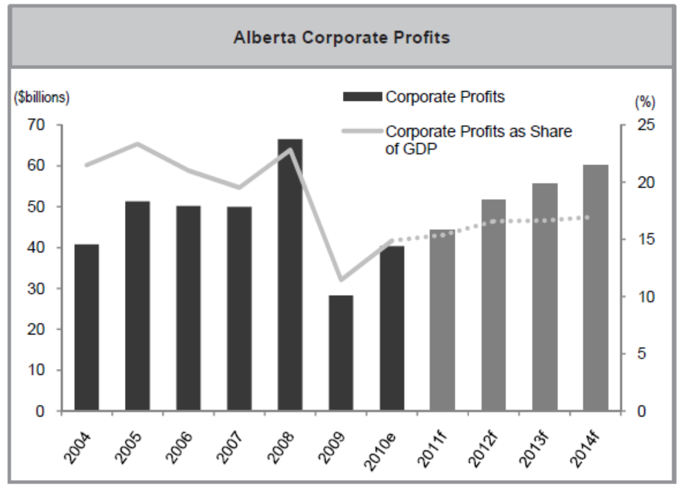
Income Level ($)	*Flat Tax with 40% Surtax on $15,000 Taxable income ($1,000,000)*	*Status Quo ($1,000,000)*	*Tax Shift ($1,000,000)*	*Average Individual Tax Increase ($)*	*As a % of Individual Income (maximum)*
Min-10000	3.4	3.4	-	0	
10001-20000	17.7	17.7	-	0	
20001-30000	129.5	129.5	-	0	
30001-40000	398.8	398.8	-	0	
40001-50000	553.1	553.1	-	0	
50001-60000	522.4	522.4	-	0	
60001-70000	525.7	525.7	-	0	
70001-80000	519.9	519.9	-	0	
80001-90000	463.9	463.9	-	0	
90001-100000	456.8	456.8	-	0	
100001-250000	1527.6	1,513.9	13.7	$ 85.20	0.09%
250001-300000	177.3	160.3	17.0	$ 1,976.74	0.79%
300001-350000	127.6	110.3	17.3	$ 3,530.61	1.18%
350001-400000	120	101.2	18.8	$ 4,947.37	1.41%
400001-450000	96.3	79.7	16.6	$ 6,148.15	1.54%
450001-500000	79.7	64.6	15.1	$ 7,947.37	1.77%
500001-Max	1863.8	1,384.0	479.8	$ 36,907.69	7.38%
All	7583.6	7,005.1	**578.5**		

(Source: Alberta Federation of Labour, custom tabulations using Statistics Canada's Social Policy Simulation Database and Model)

c) Increase corporate taxes

The Alberta Federation of Labour recommends the Government of Alberta raise corporate taxes to at least the Canadian average. Corporations can afford it. Corporate profits have been outpacing gains in personal income for some time. Even though the 2009 recession took a chunk out of both individual and corporate bottom lines, personal incomes declined while corporate profits merely slowed.





(Source: Government of Alberta, "Budget 2011 – Economic Outlook," pages 127 and 129, http://www.finance.alberta.ca/publications/budget/budget2011/economic-outlook.pdf)

The above graphs show that after decreasing in 2009, personal incomes have increased by single-digit percentages and are projected to continue that way into the near future, unless things change. Whereas corporate profits are very healthy indeed. The 2009 recession dropped corporate profits to 10 per cent, but are projected to be far and away higher than increases in personal income.

The average Canadian corporate tax rate is just over 12 per cent. The Treasury would gain approximately $330 million per percentage point. Bringing the corporate tax rate up two points would add two-thirds of a billion dollars to our province's coffers and we'd still have a corporate tax rate that's lower than the Canadian average

d) Increase royalties to at least the rates proposed by the 2007 Royalty Review Panel

In 2007, the Royalty Review Panel projected that the province would gain approximately $1.4 billion in 2010, a 20-per-cent increase over the previous royalty rates, if the Panel's recommendations were in place.

The principles that guided the government's decision to raise royalties at that time were:

- "Support sustainable economic development that contributes to a high quality of life for all Albertans now and into the future
- Support a fair, predictable and transparent royalty regime
- Align Alberta's royalty regime with overall government objectives."[11]

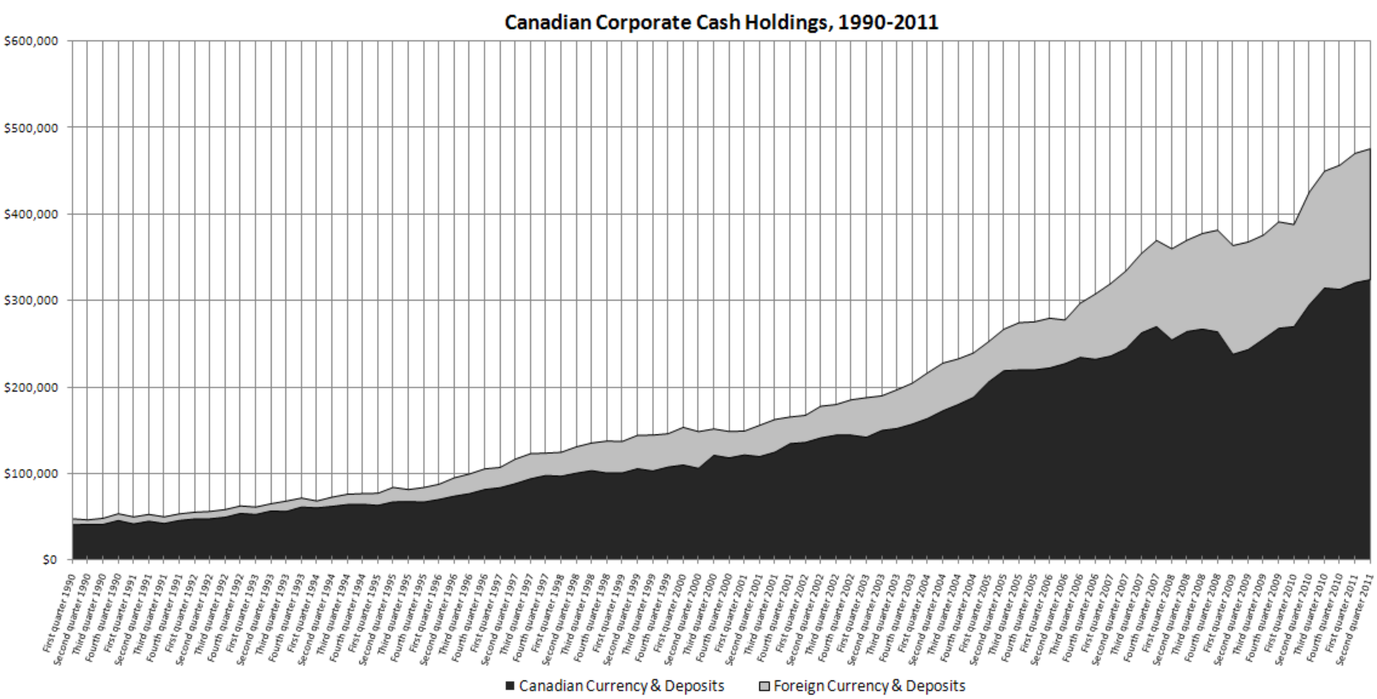
The Alberta Federation of Labour respectfully submits that these laudable goals should still guide decisions around our royalty rates. And yet we were bullied with a high-powered scare campaign to dropping royalty rates. We must be willing to stand up to the industry as a starting point.

[11] Government of Alberta, "The New Royalty Framework," October 25, 2007

Tax cuts don't create jobs and fair revenues don't kill political careers

Business groups and conservative ideologues warn that higher taxes and royalties will drive away business and kill jobs and economic activity. But there is no reason to fear. We're in an extremely enviable position in terms of potential for revenue growth.

The first step towards revenue growth is recognizing that tax cuts, especially corporate tax cuts, don't create jobs and increasing them won't kill jobs. A decade of corporate tax cuts has failed to spur job growth as was promised. Instead of creating jobs as promised, corporations are hoarding cash holdings.



(Source: Statistics Canada, National Balance Sheet Accounts: Data Tables, catalogue number 13-022-X)

There's lots of room to maneuver within our personal tax regime. As former Minister of Finance and Enterprise Lloyd Snelgrove recognized in the 2011 Budget address, we collect $11 billion fewer business and personal taxes than other provinces.

Tax and royalty increases also won't hurt jobs or investment because we have what the world wants: Alberta sits on one of the largest proven oil reserves in the world. In fact, we are second only to Saudi Arabia, according to the Alberta government.[12] Through the Crown, on a per-capita basis, the people

[12] Government of Alberta, "Facts and Statistics," http://www.energy.alberta.ca/OilSands/791.asp

of Alberta own the largest reserves of recoverable oil in the world—51,900 barrels per person. [13] If oil is priced at $100 a barrel, that's the equivalent of $5.1 million for every Albertan.

Of all established oil reserves, 92 per cent are under the control of national oil companies. Only the remaining 8 per cent of the world's oil reserves are fully available to International Oil Companies without restrictions. Half of those are in Alberta. In other words, we sit on some of the most lucrative and strategic land in the world.[14] And what all of this means is that we have bargaining power, power we can use to get a better deal on taxes and royalties to fund the services we need and which we value.

It's time we act like owners of our resources and use them to build a sustainable economy that benefits us all.

Finally, other conservative politicians and governments have stood up to "big oil" and the corporate sector and driven a harder bargain for their constituents without massive capital flight. These leaders include Danny Williams, Sarah Palin, and our very own Peter Lougheed. The Alberta Federation of Labour urges the Redford government to emulate these right-of-centre leaders and raise royalties and other income taxes in order to get pay for the public services that Albertans need.

The problem:

- Despite Alberta's wealth and lower spending than other jurisdictions, our broken revenue system leads to dangerous revenue volatility.
- Wildly fluctuating revenue leads to unnecessary deficits and puts unnecessary pressure to cut spending.
- Spending cuts create chaos in our public services and bring real harm to Albertans, with overcrowded understaffed schools, hospitals in chaos and vulnerable seniors and people with disabilities falling through ever-widening cracks.

The solution:

- Fix our broken revenue system to reduce revenue volatility and allow Alberta to save for the future
- Raise personal income taxes for those earning extremely high incomes, who have benefitted far more than other Albertans from years of the flat tax.
- Raise corporate taxes to the Canadian average.
- Revise the royalty system to meet the rent targets set by previous governments.

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[13] Canadian Association of Petroleum Producers, "Canadian crude oil: a reliable and growing supply of North American energy," 2006
[14] PFC Energy, Oil & Gas Journal, "BP Statistical Review"