

August 12, 2011

Standing Committee on Finance
Sixth Floor, 131 Queen St.
Ottawa, ON K1A 0A6

To the Standing Committee on Finance,

The Canadian Taxpayers Federation (CTF) is pleased to present the Honorable Members with its recommendations in advance of the Budget 2011-12. The mandate of the CTF – lower taxes, less waste and more accountable government – directly match the four issues listed as a priority of this committee's business: how to achieve a sustained economic recovery in Canada, how to create quality sustainable jobs, how to ensure relatively low rates of taxation, and how to achieve a balanced budget.

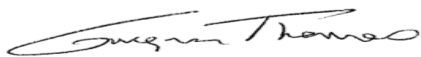
While each of these are inter-related, the former two are strongly dependent on the latter two. Reducing the tax burden on Canadians and ending the practice of deferred taxation (budget deficits) will do more than any government program to continue Canada's economic recovery and improve upon our employment rate. Yet, even of the latter two priorities of this committee, lowering taxes depends directly on the ability of the federal government to control expenditures and balance its budget. Taking decisive action to reduce spending and balance the budget in a timely manner will both ensure that future tax increases will be unnecessary, and that the federal government has the fiscal room necessary to reduce the overburdened load already carried by Canadian taxpayers.

The CTF's plan is based upon three principles:

1. Deficits are deferred taxation, destructive to the long-term finances of a country and are an immoral burden to place upon future generations;
2. Current plans for balancing the budget are unacceptably timid in their medium-to-long-term framework; and
3. Balancing the budget must be achieved through reductions and freezes in spending, not by raising taxes.

Using these three principles as a framework, the CTF presents its pre-budget recommendations, *Zero in Two: Taxpayers Deficit Action Plan*, a full version of which can be found at taxpayer.com. This plan is unique in Ottawa in that it is not a request for more funding by a special interest group, but rather a call for reduced spending.

Yours truly,



Gregory Thomas
Federal Director, Canadian Taxpayers Federation

Executive Summary

- Reduce program spending by \$18 billion below 2010-11 levels in addition to curving growth. This returns program spending to levels seen between 2008-09 and 2009-10.
- Hold the line on taxes until achieving balance.
- Eliminate corporate welfare, regional development agencies, bio-fuel subsidies, most arts and language subsidies and other select grants and contributions.
- Privatize Canada Post and VIA Rail. Also, end taxpayer support for the CMHC.
- Reduce most departmental budgets between 10-25% and freeze remaining budgets for two years.
- Phase out the Equalization Program by 10% annually and assist recipient provinces in paying down respective debts in lieu of cash-transfers. Continue growth in Health and Social Transfers and National Defense spending at a reduced rate.
- Pass a *Taxpayer Protection Act* to ban future deficits and tax increases without an explicit mandate to do so given in an election or referendum.
- Pass a *Debt Retirement Act* with a schedule for making Canada a debt-free jurisdiction.
- Prevent a further EI payroll-tax hike by eliminating non-insurance based EI programs.
- Reform MP and public service pensions by scrapping defined benefit plans in favor of the government's new Pooled Registered Pension Plan (PRPP).

Summary of Reductions	Savings (\$ millions)
Departmental & agency budgets	6,237
Crown corporations*	4,316
Regional development & other corporate welfare	3,663
Equalization	3,585
Art, culture, language & censorship	1,562
Other subsidies	2,619
Total Reductions	21,141

*Figure is \$842 million less than accounted for in the Fiscal Summary due to the government's privatization of AEC since this report was written.

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

Fiscal Summary

In producing a fiscal model with which to work, this report uses the 2009-10 *Public Accounts of Canada*ⁱ and extrapolates forward using the Parliamentary Budget Officer's (PBO) forecast for program spending and debt interest. This is done while adjusting for scheduled increases in several major transfer programs as detailed by Finance Canada's *Update of Economic and Fiscal Projections*.ⁱⁱ While these figures are based on the previous fiscal year (using the most recent Public Accounts available), the relatively unchanged fiscal situation makes them mostly applicable moving forward one year.

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

*Zero in Two

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

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

Spending Reductions

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

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

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

Spending Reductions, 2012-13 ¹	Reduction/Action	Savings (\$ millions)
Human Resources & Skills Development		5,250
Department less major transfers	20%	747
Labour market grants and contributions	eliminate	1,488
Canadian Mortgage and Housing Corporation	make revenue neutral	3,015
Equalization		3,585
Equalization payments and related accords	10% annually	3,585
Industry		2,649
Department	25%	350
Subsidies to businesses	eliminate	572
Other grants and contributions	eliminate	1,040
National Research Council	50%	463
Other sub-agencies	10%	225
Natural Resources*		2,003
Department	25%	483
Bio-fuel and eco subsidies	eliminate	593
Other grants and contributions	eliminate	85
Agriculture		1,009
Department	10%	154
Agri and bio-fuel subsidies	eliminate	1,658
Dairy and Grain Commissions	eliminate	39
Heritage		1,742
Department	25%	77
Art, language, culture subsidies	eliminate	1,146
Council for the Arts, National. Film Board, Telefilm,	eliminate	388
CBC	10%	113
CRTC, Nat. Arts Centre, PS Commission, PS Lab	10%	17
Transport		1,008
Department	10%	532
Eco subsidies	eliminate	10
Other grants and contributions	eliminate	6
Canada Post	privatize	73
VIA Rail	privatize	387
Regional Development		728
ACOA, FDASO, EDACRQ, FedNOR, WED, CanNor	90%	728
Canada Revenue Agency		658
Department	15%	658
Health		567
Department and all sub-agencies	10%	567
Public Works & Government Services		400
Department	15%	400
Can. International Development Agency		375
Department	10%	375
Foreign Affairs & International Trade		255
Department	10%	255
Fisheries & Oceans		194
Department	10%	194

¹ Spending reductions in 2012-13 are relative to estimated spending levels in 2010-11.

Citizenship & Immigration		172
Department & Canadian Refugee Board	10%	168
Multiculturalism subsidies	eliminate	4
Environment		166
Department and other sub-agencies	10%	102
Subsidies to eco-businesses and initiatives	eliminate	63
Indian Affairs & Northern Development		123
Department	10%	123
Justice		95
Department	5%	71
Human Rights Tribunal and Commission	eliminate	24
Finance		85
Department less major transfers	10%	85
Parliament		56
Senate, House of Commons and other sub-agencies	10%	56
Privy Council Office		19
Department	10%	19
Governor General		2
Department	10%	2
Total		21,141

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Public Sector Pay and Pensions

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

In 2010, there are 261,159 federal retirees and survivors receiving retirement payments. This is projected to grow to 296,180 in 2015 – a 13.4% increase – when fewer taxpayers will be around to pay for more retirees. To reform the plan, the Government of Canada must close entry to the current defined-benefit regime in favour of its new Pooled Registered Pension Plan (PRPP), requiring equal contributions from taxpayers and government employees and leaving no additional unfunded liabilities for future taxpayers.

With an aging population and young taxpayers facing a massive unfunded liability, it is critically important that some of the fiscal pressure placed upon them be released.

The moral authority required to reform public sector pensions will demand that MP themselves be included in such changes. Retired and defeated MPs from this spring's election will receive \$111.5 million in pension benefits in addition to \$4.3 million in severance. Former Bloc Québécois Leader Gilles Duceppe will collect \$140,765 for his service to Canada. With taxpayers contributing \$5.50 for every \$1.00 that MPs and Senators contribute, the plan is indefensible.

ⁱ Minister of Public Works and Government Services Canada, “Public Accounts of Canada 2010: Volume II,” sections 2-27. Ottawa.

ⁱⁱ “Update of Economic and Fiscal Projections 2010,” *Finance Canada*. Ottawa. October 2010.

ⁱⁱⁱ Laurin, Alexandre and Robson, William B.P. “Supersized Superannuation: The Startling Fair-Value Cost of Government Pensions,” *C.D. Howe Institute*. December 2009.