Lessons from Alberta on Fiscal Dividends and Taxation

The Honourable Stockwell Day

In this chapter, I want to pass on some lessons from Alberta about fiscal dividends and taxation. But, let me state my biases right up front. I am a strong believer that small governments are better governments. I do not believe that more money necessarily produces better results. I do not believe that for every problem there is a made-in-government solution.

I believe Canadians—and that includes Albertans—are over-taxed. Particularly when I look at the results governments achieve with tax dollars and when I look at our nearest competition, the United States, I am convinced that governments with too much money will spend it unless they are fenced in by legislation. Further, in Canada today there is no government with extra money: so-called surpluses or fiscal dividends dwindle when compared to the debt burden Canadian governments have left for future generations to pay off, complete with massive interest costs. So, that is where I come from personally. It is a view many Albertans share and that is why they keep electing conservative governments.

Key points in Alberta's recent fiscal history

Early 1980s—the boom times

- Alberta's spending grew with the price of oil and gas.

- We spent as if there was no chance of the economy slowing down.
- People talked about the possibility of oil reaching $80 a barrel.
- Inflation was in the double digits and annual increases to education, health, and other spending areas were in the 10 percent to 15 percent range.
- By 1985/1986, Alberta's spending climbed to over $6,000 per person, among the highest in the country.
- The size of government administration grew to 38,000.

Mid- to late-1980s—"The Bust"

- The price of oil crashed and Alberta's revenues dropped from over $14 billion to $10 billion in less than a year.
- The National Energy Program was another shot at Alberta's economy that devastated the oil and gas sector by not allowing market prices to prevail.
- Government spending was not reduced to make up the shortfall. Instead, we counted on optimistic revenue forecasts and thought the downturn would be short lived.
- Nine years of deficits resulted in a total of $19.5 billion in borrowing.
- Increasing taxes in 1987 to fight the deficit was a failure.

1993—reality hits

- Alberta reports a deficit of $3.4 billion and net debt of $8.7 billion, with an accumulated debt (1986–1993) of $19.5 billion.
- Debt servicing costs on the $19.5 billion we borrowed had skyrocketed from $40 million to $1.5 billion in only 9 years.
- Costly overlap and duplication were evident across all sectors of the public service from schools to hospitals to colleges and within government itself.
- Government was everywhere, in every aspect of the lives of Albertans. We were involved in things we never should have: selling alcohol, providing business loans and guarantees, tinkering with the economy, running businesses such as registries to sell drivers' licenses or land titles.
- Government had lost credibility and the trust of its electors because it could not balance the books. We thought the way out was

to promise more, but what Albertans really wanted was for us to get rid of the deficit, not pass on a staggering debt burden to our children, and deliver affordable services.

The 1990s—balanced budgets and fiscal responsibility

Alberta's balanced budget plan focused on:

- cutting spending by 20 percent while setting clear priorities: fewer cuts in core areas like health and education and more in areas that were not essential;
- reducing waste and duplication and getting out of businesses others could do better;
- using conservative revenue forecasts and building-in cushions on corporate income tax and non-renewable resource revenue so we would not see a repeat of 1986/87;
- paying down debt.

What are the results?

- We have gone from being among the highest spending province in Canada to one of the lower spending and from the biggest government in Canada to the smallest.
- The deficit was eliminated ahead of schedule, thanks to a combination of spending cuts, a strong oil and gas sector, and a more balanced and diversified economy
- Taxes were not increased and Alberta still prides itself on having the lowest taxes in Canada across the board and no sales tax.
- By March of 1999, we shall have paid off $8.7 million on our net debt though we shall still have $13 billion more in asset-supported debt to repay.
- Alberta's economy is booming—and that means the good news of annual surpluses.
- The size of government administration has decreased by 14,000 positions to 24,000.
- Three-year business plans, budgets, and annual reports on performance and results have become standard features of the budget process.
- We have reduced costly duplication and inefficiencies and moved out of businesses we never should have been in.

- Reinvestment has begun. Albertans are starting to see the direct benefits of paying down debt. Interest savings go to priorities like health and education. Last year that meant 1000 more front-line workers in the health system and better access to surgeries and other treatments.

Five lessons from Alberta

(1) There's no right time to cut government spending.

In tough economic times, there's pressure on governments to "do something"—stimulate the economy, create jobs, build infrastructure, "give people a leg up." In good times, there is money available so there is no urgent need to reduce spending. An article in *The Economist* says: "The state grows in bad times, it seems, because it has to. It grows in good times as well, only faster, because governments feel more ambitious." (September 20, 1997: 11)

In Alberta, the financial crisis was the best reason to do what we should have been doing all along—spending only what we could afford and protecting the taxpayers' hard-earned dollars. The financial crisis gave us a good reason to say "no" even to very good ideas. And, it forced us to go back to the drawing board and ask the tough questions about results and about the role government should play.

(2) Understand what your business is—and is not.

In the past 50 years, governments around the world have grown and expanded—have become more and more involved in the lives of its citizens. In Alberta, we took over alcohol sales, selling drivers' licenses and trying to "control the economy." It did not work. We learned that you cannot do all the same things you have always done and spend less money. We learned others—individuals, families, municipalities, organizations, volunteer groups, and the private sector—can often do the job better than government.

(3) Focus on results.

This is a big step for governments to take because it means challenging the conventional wisdom that says spend more and you will get better quality programs and better results. That is the kind of thinking Bill Thorsell talked about in one of his editorials: "When money becomes the measure of all things, we dumbly equate more money spent to superior quality and virtue" (*Globe and Mail*, September 13, 1997: D6). He makes the analogy to computers and electronic equipment. No one assumes that a personal computer is inferior because it costs one-half of what it did five years ago. In fact, we expect it to offer more features and more power at half the price. The same is true for other retail products. But, when it comes to goods and services in the public sector, we blindly reject the view that lower cost can mean better value.

In Alberta, we are working hard to shift the focus from how much we spend to the results we achieve. This means introducing a more business-like approach to business plans and budgets. We set a three-year horizon and an overall business plan and budget for government; we require every ministry to develop a concise business plan setting out the results that they expect to achieve and the strategies that they will use. And, we report on performance and results every year, publishing one overall report for government and a separate report for every ministry. Measures are tracked so we can see where we are achieving the results we planned and where we are failing short. These results are made public for all Albertans to see.

Alberta's Auditor General audits our measurements and goals and we produce an annual report, *Measuring Up*, that is released along with our year-end audited financial statements.

(4) Build strong fences

This lesson is important not so much for the people outside the fence but for those on the inside—the politicians. It is not easy sticking to a conservative, no-frills budget. Most politicians are tempted to spend more and there is no shortage of good ways to spend money in our families, our businesses, or our governments. Alberta's strong fences are legislation that forbids us to run a deficit, requires us to report on finances every quarter, requires conservative revenue forecasts, requires annual debt payments, and sets out clear accountability requirements.

(5) Once you have cut, do not think the job is done.

Right now in Alberta, the word "surplus" is a Provincial Treasurer's nightmare. People quickly forget the tough times we have been through and, with more money available, they want us to spend more. There is no permanent fix, therefore, because the temptation to spend has not gone away and the expectations of some people, some organizations or sectors, or even some MLAs are always present.

A case for smaller governments

Let me close by going back to the key points I made at the beginning. I am not a supporter of big governments. I think we are over-taxed as Canadians. And I am convinced we can achieve as good or better results while spending less money.

Why is it that Canadians resist tax reductions?

Canadians want the debt reduced but they fear a loss of services. They do not see the complete "loop" from less tax to a more vibrant economy to more dollars available for social infrastructure.

Some may have read the article, The Future of the State, in *The Economist* (September 20, 1997). If you have not, I highly recommend it because it looks at the steady growth in government and asks some critical questions about why this has happened and what results it has had. Some of the key points from that article are points we all need to think about if we are trying to answer the question: What is the optimal size of government?

- Government spending has moved ever upward, no matter what the conditions: during war and peace, with free trade and little trade, in big countries and small, government spending went up everywhere.
- Even Margaret Thatcher was not able to stem the tide. After 20 years of cuts in Britain, government spending as a proportion of the total economy dropped by only 1 percent.
- In Canada, government spending as a percentage of GDP has grown from 13 percent in 1920 to almost 45 percent in 1996.
- Governments that are spending heavily seem to be doing little or no better than governments that spend much less in providing social goods—better education or better health care. And, there is no evidence that the people governments are often trying to help—the poor—are any better off.

The Economist's conclusion is that

> [i]n the West, it seems, original sin has been superseded; instead, people come into the world with an original burden of obligation to the social enterprise, a debt to their fellow citizens that is not of their own making and that they can never discharge. Though not without its comforts, it is a kind of bondage. It augers well for big government. (The Future of the State, *The Economist*: 48)

I am not as pessimistic as *The Economist*. I am convinced we can eliminate or at least reduce the "original burden." I believe we owe it to our children to do so.

Five steps for escaping debt

(1) Reduce taxes. Governments cannot spend what they do not have.

(2) Set clear expectations. It is time to re-think the role of government—a role that should be smaller not greater than it is now.

(3) Establish a clear program of tough outcome measurements.

(4) Erect a legislative fence to put strength into policy statements like deficit elimination, budget procedures, debt pay-down, and taxpayer protection

(5) Resist temptation. It is always easier to say "yes" than it is to say "no." Politicians are no different from anyone else but it is our job to provide leadership, to resist the easy way out, and to stick to the hard-fought gains each of us has made in each of our provinces over the past four or five years.

The hard work is just beginning.

Balance: Fiscal Responsibility in Saskatchewan

THE HONOURABLE JANICE MACKINNON

The 1990s have seen an encouraging trend by Canadian governments towards fiscal responsibility though we have used different approaches to accomplish this. Now we face the new challenge of ensuring that our economies continue to grow and to provide Canadians with economic opportunities not only today but also through the next century. In Saskatchewan, we are taking on that challenge in much the same way that we managed our fiscal situation. In this chapter, I shall first describe where we were and what we did. Then, I want to describe how we are taking the same kind of approach—one of balance—to growing the economy.

At the end of 1991, when the Saskatchewan New Democratic Party took office, our province faced three major challenges:

- the largest per-capita deficit in Canada
- the largest per-capita debt in Canada
- business had stopped investing and creating jobs.

This called for difficult choices. The top priority was to stop the financial bleeding. We also wanted to take a balanced approach and to protect the most vulnerable of our citizens. We could not balance the books on the backs of the sick, the aged, young people, and the unemployed. To achieve this balance, we had to be innovative. Together with the Saskatchewan people, communities, businesses, and co-operatives, we designed a four-year, balanced plan to restore our finances.

In some cases, we reduced expenditures; in others, we redesigned programs; in still other cases, we increased revenues. We cut spending dramatically. We redesigned our health system but our decision was to protect our vital social-safety net. Overall, not one dollar was cut from the social envelope from the time we took office.

The choices were difficult but we believed that it was essential to set the stage for growth by putting our financial house in order. We were the first senior government in Canada to balance our budget and the first to start paying down debt.

When our finances stabilized, business started to invest once more and our economy started to grow. By 1996, Saskatchewan led all provinces with 3.3 percent growth in GDP, more than double the national average. Manufacturing shipments were up 10 percent, the highest increase in Canada. This trend continued in 1997. Manufacturing shipments are running 18 percent higher than the same period last year, an increase well above the national average of 7 percent. Retail sales are also up almost ten percent year over year.

Our credit rating has, once again, been upgraded. When Standard and Poor's raised our rating this year, they cited the sharp decline in tax supported debt and our commitment to debt reduction as part of the reason. So with our fiscal house in order, it is time to shift our focus more clearly to the economy, taking the same balanced approach that we used in managing our fiscal situation.

Our balanced approach reflects our view that the role of government goes beyond "just getting out of the way" or "counting the dollars." But, at the same time, government cannot be all things to all people, an approach that leads along the dangerous road of mounting debt or mounting tax loads.

We will continue to produce balanced budgets—that is essential. But, our budget surpluses are being divided into roughly equal thirds:

- one-third to debt reduction
- one-third to reducing taxes
- one third to investing in people

It is our view that, without this balanced approach, you cannot really grow the economy. As governments, one of our responsibilities is to ensure that we are competitive.

A recent study by the KPMG company analyzed the costs of doing business in Saskatchewan, compared to competing centres in Canada and the United States.

For all 10 economic sectors examined, Saskatchewan's cities offer lower operating costs than competing cities in the United States. In fact, costs were 12 percent lower in Saskatchewan than in the United States, in part because in Saskatchewan the government pays the costs of health care while in the United States, the private sector pays for health-care premiums. Saskatchewan was also competitive with other Canadian jurisdictions. For instance, the cost of starting a business in Saskatchewan is 18 percent less than in Winnipeg and 29 percent less than in Calgary.

There are a number of factors that go into the mix on competitiveness. A major factor, however, is taxation. We have made a commitment to affordable tax reduction and we have acted on that commitment. We have used targeted tax reductions in key sectors of our economy such as manufacturing and processing and call centres so that, in these sectors, Saskatchewan is one of the least expensive jurisdictions in North America in which to do business.

We have also committed ourselves to making more broadly based tax reductions when they are affordable. In 1995 and 1996, we made modest income tax cuts. In 1997, we cut our provincial sales tax from 9 to 7 percent—a decrease of 22 percent—and it is now the second lowest in Canada. And we have seen growth in consumer confidence as a result.

Clearly, tax reduction is important but it must not be made at the expense of debt reduction. Paying down the debt is really an investment in the future since it provides the long-term fiscal stability that is so critical to long-term growth. Government's role is to preserve this.

And as we head into the new century, government must also invest strategically. By "strategically" I mean that, because government cannot be all things to all people, we must invest in areas like education and training that show the most promise for future opportunities. Across the country, we are facing the double-barreled challenge of a lack of trained workers in some sectors and continued high unemployment in others and we need continually to improve, to modify and to invest in education and training.

Saskatchewan has a training strategy in place that is designed to provide training that is more relevant to industry needs. It is not perfect but we are improving it through partnerships between business and our academic institutions. The skills need to match the jobs if we are going to grow; one of the first things that growth-oriented companies look at is the availability of skilled people.

A growing economy also requires solid infrastructure. In Canada generally and especially in Saskatchewan, where we rely so heavily upon trade, transportation is vital. We are investing $2.5 billion in our highways over the 10 ten years. We have also asked the federal government to develop a national transportation strategy; Canada is the only federal state in the western world in which there is no national highways program.

Sixty percent of Saskatchewan's gross domestic product is sold outside the province; sixty percent of that goes to international markets. One out of every 3 jobs in Saskatchewan depends upon trade. For this reason, in partnership with industry, we established the Saskatchewan Trade and Export Partnership, Canada's first partnership between industry and government to promote trade. Finding and expanding markets is critical to our growth in the next century.

Innovation is also important as it is essential to capturing and keeping markets. It is the key to becoming or remaining competitive and so, in today's competitive economy, government must build and sustain the capacity to innovate. Saskatchewan has made a significant investment in research and development, especially in areas like agricultural biotechnology.

We are now seeing what we think is just the tip of the iceberg when it comes to the return on this kind of investment. One-third of Canada's agricultural biotechnology industry is now located in Saskatchewan; we have attracted major global players to invest and locate in Saskatchewan. We created the world's first genetically engineered crop; the world's first genetically engineered animal vaccines. We are using the tools and products of innovation to help feed a hungry world; we are creating new and better crops for more productive farming, new and better uses for those crops to diversify our economy.

Just how far we have come is demonstrated in the selection of the University of Saskatchewan by an international peer review panel to be the site of Canada's only synchrotron, a sophisticated x-ray light source that can examine sub-atomic structures. It will give us the ability, for example, to produce frost-resistant crops more quickly and to speed up our search for cancer-fighting drugs. Its potential benefits to the biotechnology sector are enormous.

Strategic investment has certainly been the key to success in agricultural biotechnology and research and development. We take this same strategic approach in managing our finances and in our role in the economy overall.

So when you ask how we should we spend the fiscal dividend, our answer is that we should invest strategically to create the conditions for economic growth in the twenty-first century.

Economic growth is more than an end in itself. It is through economic growth that we can offer services that help create a high quality of life while keeping taxes at a reasonable level. In turn, those same services help us to grow, as our subsidized health-care costs make us more competitive than many American locations.

Balance is essential. Too great a focus on any one area creates distortion and over time the economy suffers, and society suffers. Maintaining the balance is a challenge for governments. But our future depends upon it, both as a province and as a nation. We already have a strong foundation. Canada has been ranked as the best place in the world to live. With the right approach, we can achieve a vibrant economy in which there are opportunities for all.

Restructuring the Government in Ontario

The Honourable Ernie Eves

There has been a great deal of discussion of late about how the federal government should spend its expected fiscal dividend. Paul Martin, the Finance Minister, is getting advice from every side and appears to be thinking about a combination of debt reduction, tax cuts, and spending.

I am pleased to join in the discussion. Unfortunately, unlike my colleagues from Saskatchewan and Alberta, I am not in a position to write about what we have been doing with our fiscal dividend. Ontario got off to a late start in this endeavour.

Undoubtedly, the early 1990s was a period of economic turbulence for all of North America but several factors deepened the impact on Ontario and a series of poor provincial policy decisions exacerbated our problems. Ontario remained largely oblivious as the world changed between 1985 and 1995, as global trends took hold—trends of great significance to the people of Ontario—and as many provinces like Alberta and Saskatchewan and numerous members of the Organisation for Economic Cooperation and Development (OECD) changed the way they operated in response to these competitive pressures.

The Progressive Conservative government came to power in Ontario in June of 1995, the year after Saskatchewan and Alberta balanced their budgets. Both of those provinces were then beginning to see the benefits of their hard work. In the fiscal year 1994/1995, Alberta had a surplus equal to 1.2 percent of GDP and Saskatchewan had a surplus of 0.6 percent of GDP.

What did Ontario have? Increasing deficits and debt. Between 1990 and 1995 our ration of debt to GDP doubled and, in 1995, Ontario had a deficit of 3.4 percent of GDP. Ontario was spending nearly one-fifth of its revenues on interest payments alone. The deficit was over 11 billion dollars and the provincial debt was 100 billion dollars. The deficit was so large that we were spending over a million dollars an hour more than we were taking in revenues.

Residents of Ontario also paid some of the highest taxes in North America. Between 1985 and 1995, taxes overall were raised a 65 times in Ontario. Between 1988 and 1993, Ontario's basic tax rate rose 7 percentage points while it rose an average of only 2 percentage points for all of the other provinces.

There was one thing we did not have in Ontario—jobs. Despite our central location in the North American market, our diversified economy, our strong infrastructure, and our skilled workforce, Ontario's economic performance between 1990 and 1994 was the worst since the Great Depression. In fact, the number of people working in the province at the end of 1994 was lower than it was at the beginning of 1990. Between 1990 and 1995, employment in the private sector fell by 38,000.

Clearly we faced serious problems and we had difficult choices to make. It was obvious that the only way to unleash the forces of private sector for growth, to make Ontario a competitive jurisdiction in the global economy, and to maintain the high level of social services offered here, was through a profound restructuring of the way that government operated. With this in view, as it prepared for the 1995 provincial election, the Progressive Conservative party embarked upon the development of an platform of government restructuring. We asked whether there were more efficient ways to deliver the important programs to Ontario. Were there fairer ways to approach taxation? Were there changes in social infrastructure that would reduce waste and enhance outcomes? Most important of all, we asked whether it was possible to balance the unique social and economic interests of our province while creating jobs and balancing the budget?

We looked to a number of jurisdictions in order to develop our recovery plan. We looked at hospital restructuring in places like Saskatchewan, the business planning process implemented in Alberta and issues like labour policy in other Canadian provinces. We studied what worked and what did not in New Zealand, in Europe, and in Asia. We looked at public policy in places like New Jersey.

The plan that we developed was a combination of ideas used in other places and adapted to the specific needs of Ontarians. Our plan was one that many thought was impossible to implement: to cut taxes, to reduce spending, and to restructure government—all at the same time.

In our first two and one-half years, we cut government spending drastically and are dramatically reducing its size. We have already cut taxes a total of 30 times in just two Budgets. We are completely restructuring our relationship with local governments and delineating responsibility for services best provided at the municipal level. We have refocused funding for social assistance, implemented a process of business planning for every government ministry, rebalanced labour laws, and taken steps to eliminate over 1500 unnecessary regulations.

The results have been remarkable: in the midst of the largest government restructuring ever undertaken, consumer confidence has risen for 7 consecutive quarters to its highest level in nearly 9 years, up 37 percent since the end of 1995. Ontario's real GDP rose at an annual rate of 7.2 percent in the second quarter of 1997, following growth of 6.8 percent in the first quarter. The total number of people working in Ontario has risen two percent in the past year in spite of major, ongoing, reduction in the number of jobs in the public sector. Since implementing the first phase of our cuts in the income-tax rate, revenues from all forms of taxation have increased by over $1.2 billion.

The consensus of economic forecasts expects Ontario to grow at 4.4 percent in 1998, compared to 3.7 percent for Canada. For the period from 1997 to 2001, the consensus predicts average growth of 3.7 percent in Ontario, compared to 2.5 percent for the United States and an average of 2.3 percent for the rest of the G7 countries.

W e have now proven that governments can cut taxes and spending at the same time, and still see an increase in revenue as the private sector creates more and better jobs. In Ontario, tax cuts are building confidence and economic momentum to boost private-sector growth as we reduce spending. Lower tax rates provide increased incentives for investment, entrepreneurship, and innovation. These lead in turn to a more dynamic economy and a permanently higher growth rate rather than to short-term job creation.

We have recently received credit from federal Industry Minister John Manley for having had this insight—and having acted on it. Mr. Manley was recently quoted as giving the Ontario government credit for Ontario's leading the nation during 1998 with what the Bank of Montreal called "red hot" commercial growth. Mr. Manley is quoted as saying Ontario taxpayers "have more money in their pockets and therefore they have more money to spend." He went on to confirm that in his view "tax cuts increase domestic consumption."

Ontario's advice to the federal government, then, is quite simple: cut taxes. In our view, one of the first federal tax cuts should be to Employment Insurance premiums. Employment Insurance premiums are payroll taxes, period. There is room for a reduction much larger than the last two cuts the federal government has announced. Along with the Canadian Federation of Independent Business and other business organizations, we have argued for a premium reduction to $2.20 per $100 of insurable earnings, much lower than the $2.70 announced last month to take effect in January. There is also ample room for the federal government to eliminate entirely the Employment Insurance premiums for youths, creating jobs for young Canadians now. Even were both these cuts made, the federal government would continue to run a surplus in the El account.

The federal government does not have to have a fiscal dividend to cut taxes. We believe they are in a position to cut payroll taxes now, especially when they are increasing Canada Pension Plan premiums. While Mr Martin has indicated that the huge Employment Insurance surplus is an important part of the government's fiscal plan, certainly with a budget surplus there will be no reason not to cut taxes.

Spend the fiscal dividend?

Let me turn for a moment to the reported spending plans for the federal fiscal dividend. I must admit that I become concerned when I hear that the federal government is considering new spending. If we have learned a lesson from the 1980s, it is that we must not squander the revenues that good times bring. Ontario's experience has proven that governments often find ways to spend money even if they do not have it.

Having said that, when the federal government is looking to spend, Ontario would offer the following advice. Be strategic. Do not just layer new programs on top of the old without testing whether the old programs remain useful, effective, and efficient. In Ontario and Alberta, the governments have implemented a rigorous business planning process for each ministry. This process identifies objectives and targets to measure results. It ensures accountability and identifies programs that are no longer relevant to the needs of citizens.

Government provides a vital role in a well-ordered society. However, there is little doubt that in recent decades we have had too much government. The benefits from specific government programs are concentrated while the taxpaying burden is spread out. In spite of that, in recent years the general dismay of taxpayers about excessive spending and debt has become influential. This is a sign that governments have grown much larger than they ought to be.

Two researchers at the International Monetary Fund have published a fascinating historical study of the growth of governments in the leading industrialized countries over the past century. Based on their studies, they arrived at the tentative conclusion that "the level of public spending does not need to be much higher than, say, 30 percent of GDP to achieve most of the important social and economic objectives that justify governmental intervention."

Needless to say, spending by government in Canada remains far above 30 percent. In Ontario alone, it represents 16 percent of GDP (down from 18.6 percent in 1995). The study goes on to predict that the radical reforms needed to bring government down to this level will generate "strong opposition, from the specific groups that benefit from the spending ... The argument that the reforms would make most citizens better off over the long run will not allay concerns in the short run." In Ontario, we are very familiar with this opposition but we will press on to do what is best for the economy and for the citizens of Ontario.

Debt reduction

The government in Ontario is looking forward to the day when we can begin to pay down our debt. Ontario's ratio of debt to GDP was stable between 15 and 17 percent for two decades before the 1990s. Then, from 1990, it doubled in five years. Our debt now stands at over 31 percent of GDP. This makes us vulnerable in the event of future economic shocks, and it means that an unacceptably high share of our spending goes to paying interest.

The federal government's debt to GDP ratio is actually more than double ours—70 percent. For obvious reasons then, the federal government must take a serious approach to debt reduction once the deficit is eliminated.

On the question of how far governments should go in the eliminating debt, some may argue that it is in not advisable for governments to completely eliminate their debts. They would argue that it is appropriate and advisable that government—like business—continue to carry some debt. Moreover, governments invest in infrastructure that lasts for many years. It makes sense to pay for this type of investment by borrowing and spreading the cost over the useful life of the investment.

In Ontario, we are committed to bringing our debt ratio back down to its historical norm in a reasonable number of years. In the short term however we are focussing on getting rid of entirely our deficit by the year 2000/2001. We have already cut more than 40 percent or $4.7 billion below the $11.3 billion deficit the government was faced with when we took office. The 1997 Budget projected a $6.6 billion deficit for this year. Our first quarter results have indicated that we are on track and our second quarter results will show that, in fact, we are ahead of our target.

While we are not in the enviable surplus position of the federal government, Alberta, Saskatchewan and many other provinces, we are on track to meet our balanced budget goal. We are eliminating the deficit in a manageable fashion and reducing the size of government.

To date we have cut our own administrative spending by 33 percent and have reduced our own bureaucracy by more than 17 percent or 14,000 full time positions. At the same time we are making significant reinvestment in priority services and restructuring that will save us money in the future and provide us with important returns today.

For example we are investing well over $2 billion into health care, and an additional $140 million this year for essential services like dialysis, transplants, and cardiac services. Over four years we are investing over two and a half billion in municipal restructuring.

In our last two budgets we announced major re-investments in education including $650 million for school capital, $300 million for the Ontario Student Opportunities Trust Fund and $500 million for the provincial share of the Research and Development Challenge Fund.

At the same time we are cutting taxes in a variety of areas. We are not only cutting personal income tax rates, we are cutting payroll taxes —including the Employer Health Tax on the first $400,000 of payroll— and we are implementing sectoral tax cuts.

In the R& D and high tech sectors for example, I announced no less than seven tax cuts in the 1997 Budget including the Capital Tax Deduction for Research and Development, the Computer Animation and Special Effects Tax Credit, the Ontario new Technology tax incentive and the Ontario Business Research Institute Tax Credit.

These tax cuts will make Ontario one of the most R&D friendly jurisdictions in the entire world. We are implementing the Ontario Film Tax Credit to ensure that we maintain our position as one of the leading film and television production locations in North America.

In doing all of this at the same time we have proven that a balanced budget need not be achieved at the expense of jobs and growth.

So let me sum up by saying that Ontario believes the best approach to investing our national fiscal dividend should be a balanced one.

- Cut taxes to create jobs—it works.
- Be very cautious and focus on accountability when considering options for spending.
- Set a debt target and work towards it in a manageable fashion.

Finally I would say that the most important thing for all jurisdictions to remember, regardless of their fiscal position is that, in fact, government has no money. It only has the money it takes from the people. That money belongs to the people and more often than not is best left for them to decide what to do with it.

Discussion of Lessons from Provincial Politicians

Editor's Note: The following draws on a transcript of a round-table discussion that took place after the luncheon address by the Hon. Ernie Eves. I have edited all questions and answers heavily to make them brief and concise and I apologize for the omission of much wit, repartee, and rhetoric that brightened the live proceedings. The politicians have given their approval of the edited version of their remarks.

Question 1

Michael Walker As was pointed out this morning, a very significant fraction of the total adjustment in the federal Government's fiscal position was effectively accomplished through cuts in its transfers to the other levels of government. These cuts pushed the adjustment problem down to a lower level. What is the Ministers' response to this policy?

Response

Hon. Stockwell Day The federal Government made drastic cuts in Canadian health and social transfers—amounting to about 35 percent. In other areas of federal program spending, reductions were somewhere between 5 percent and 7 percent. In Alberta we criticized this distribution of cuts and the failure to reduce some types of what Canadians considered to be unnecessary programs.

Hon. Janice MacKinnon Our concern in Saskatchewan was very similar. As I recall, about 14 percent of the federal budget is spent on health, education, and social programming and yet in the last two budgets more than three-quarters of cuts were in that 14 percent of spending that affects provinces. It is surprising that the federal government got away with these cuts since they involve health, education, and social programs, which Canadians care about very much.

We persuaded the people in our own province on this point but I do not think we succeeded nationally: many Canadians seem unable to relate the problems in health care that occur at the provincial level to the real authors of the problem, the federal government.

Hon. Ernie Eves It will sound like a broken record and we are not here to bash the federal Government, but there is no doubt that the federal Government has not done nearly the job that the provinces have done in cutting their own administrative expenditure. Between the fiscal years 1994/95 and 1997/98, the federal Government will have reduced Canadian health and social transfers to provinces by over 37 percent. During the same period, they have reduced their own administrative spending 3 percent. Compare that with the Ontario government, which reduced its administrative spending by 33 percent.

I believe that as a matter of policy and principle the federal Government should have looked first in its own backyard to reduce spending. The governments of the province of Ontario, whether it was under Bob Rae or Mike Harris, have not really complained very much about these cuts. We had to deal with reality as we found it. We know that the federal Government will not return transfers to their previous levels so we will have to deal with this reality. I do not think that the federal Government policies are fair and equitable nor do I think the distribution of cuts makes good economic sense.

Currently the annualized surplus in Employment Insurance Premiums is $5 billion to $7 billion. When he was a member of the opposition, Paul Martin said that payroll taxes like EI premiums are job killers. His own ministry officials indicate that if these taxes were reduced to traditional levels it would create 200,000 to 300,000 jobs nationally. Such a policy would create economic benefits for everyone, including the federal Government.

Question 2

Grant Hill, MP The Krever Commission Report was just published. The federal Government as well as provincial governments took some blame for the blood transfusion tragedy. Allan Rock, the federal Minister of Health, says that before compensation can be paid to the victims of the tragedy he will have to consult with the provinces. It is interesting that yesterday Quebec passed a unanimous motion in their National Assembly saying that they will pay compensation to their affected citizens. As the Reform critic for health-care policies, I wonder how the governments of the three provinces that you represent here are likely to deal with the problem of compensation for the victims of Hepatitis C?

Response

Hon. Ernie Eves The province of Ontario will do ultimately what is right and responsible but I also think it is a shared problem and I will be interested to hear the federal Government's definition of shared responsibility. If it is as it was in social transfers, I will not be too impressed. I look forward to seeing their proposal along these lines. Obviously the Minister of Health will bring it to the Cabinet for consideration.

Hon. Stockwell Day We have not had a recommendation yet from our Health Minister. However, the question raises the important and much broader issue of liability of governments for past events. In Alberta we have a number of such events and they involve potentially a large hidden deficit that we have not even begun to deal with. Decisions have to be reached on how far back in history such events can be made to impose liabilities on current generations of taxpayers.

Question 3

Audience I would like to talk briefly about the Canada Pension Plan because that is something that is a joint federal and provincial responsibility. Once the system begins to accumulate a financial surplus, how is it going to be invested? Should it go to provinces as low-interest loans or should it be invested at private-market interest rates? From what I have heard, the Atlantic provinces are lobbying for low-interest loans to them. How do the provincial ministers present here feel about this issue and especially the issue of preventing hidden subsidies through low interest rates going to certain provinces?

Response

Hon. Janice MacKinnon One of the changes to the CPP brought in by the recent federal legislation addressed exactly this issue and stopped loans to provinces at preferred rates. I hope that future finance ministers will ensure the continuation of this policy.

Question 4

Ludger Schuknecht Coming from continental Europe, I must say that I am very impressed with the fiscal consolidation and reform efforts by the federal and provincial governments of Canada. As you know, some countries and regions have introduced fiscal rules, balanced budget rules, or deficit limits to lock in the gains from such consolidation and to avoid temptations that could throw us off-track in the future. Do any of the provinces now have, or plan to have, such rules imposed through legislation?

Response

Hon. Stockwell Day In Alberta, we have put in place such legislation. It provides for the elimination of the deficit, down-payment of the debt, protection against new taxes, and it even directs the process of making budgets. I have shared with Paul Martin what the merit of such legislation has been. It has provided us with effective means to resist pressures for increased spending and bigger government, which is inevitable when the economy turns up and fiscal surpluses develop.

As Ernie Eves and Janice MacKinnon know, every day there are pressures for more spending. It can become wearying and there is a temptation to want to turn into Santa Claus and start handing out gifts. I am glad that those legislative protections are there. They allow me to smile, hold hands and weep with the groups asking for more money and say: "I'd love to help you but you don't want me in jail." Paul Martin suggested at the federal level that he is not willing to embrace that type of legislated restraint. Personally, I think it is the way to go and our experience in Alberta proves it.

Hon. Janice MacKinnon In Saskatchewan, we passed legislation that requires us to balance the budget over a four-year cycle. We did this to prevent a recurrence of the developments of the 1980s that got us into fiscal trouble. During that period the Conservative government moved certain expenditures off budget and they used for ordinary expenditures, revenues from the sale of some Crown Corporations. So our legislation specifically prohibits changes to accounting practices and requires that revenues from the sale of assets be applied to debt reduction.

Hon. Stockwell Day Alberta has adopted measures similar to those used in Saskatchewan. Presently we are drafting legislation that would apply the same principles to other levels of government in the province.

Hon. Ernie Eves In Ontario, our first priority was the elimination of the deficit. We have exceeded every target we have set for this task. But I can foresee the time coming when we will have to address the issue and introduce balanced budget legislation as well.

Comments

Michael Walker The Fraser Institute's monthly publication, *Fraser Forum*, the December 1987 edition, has a survey of existing budget-restraint measures and legislative limits on deficits in Canada.

Herb Grubel I fully support all efforts to erect institutional barriers against deficit spending and accounting changes to hide it. As an MP in the last federal parliament, I introduced a Private Members Bill that would have imposed such restraints on the federal Government. The bill was debated for 20 minutes at the end of a day when the House was empty except for one member from each party. Thereafter the bill died. It did not have the support of the Minister of Finance or his staff.

Question 5

Audience When are the three finance ministers present here going to address seriously the issue of free interprovincial trade, specifically in the area of government procurement? We can trade a lot easier with the United States than we can among ourselves in Canada. My second question is, when are we going to create a National Securities Commission for Canada? We are the only country in the G7 that does not have such a Commission.

Response

Stockwell Day On the issue of a National Securities Commission, Alberta has worked closely with Ontario and British Columbia on the design of a protocol to enhance the efficiency of the Canadian capital market. However, we remain concerned that such a Commission not be driven by the interests of central Canada at the expense of Alberta with its special conditions and unique needs for exploration capital.

The issue of interprovincial trade is a source of real frustration. Here is an example. Presently regulators from British Columbia come to Alberta to examine the books of Alberta firms with businesses operations in British Columbia. These BC regulators force the Alberta firms to open their books so that they can establish their adherence to BC minimum wage and other labour market rules. They take special issue with bonus-based compensation rates used widely by Alberta firms with the full support of their employees. These types of activities by regulators from one province invading another are untenable. We have to work to eliminate them.

Hon. Janice MacKinnon To answer the important question about the optimum level of government, let me note that all politicians have a boss. It is the electorate. We can lead, but we cannot drive it. The people have their own views about a reasonable level of taxation and government services. They prize very highly their quality of life and politicians who do not meet their wishes are not around very long.

Ernie Eves Returning to the question about the National Securities Commission, I think that the government of Ontario probably is the villain who Stockwell thinks is out to get the people of Alberta. In fact, we have had discussions with the federal Government about a National Securities Commission for as long as I have been the Minister of Finance, or about 2 years. I supported the idea of a National Securities Commission from the beginning. However, there are certain regions of the country that are a little—I do not want to use the word "paranoid" so let me say concerned—about their particular needs for investment. I do not blame them for taking this position but I think that it could be accommodated within the bounds of a National Securities Commission.

We have made some progress towards agreements that will see all provinces work together under a common set of rules and guidelines. In the meantime, there has been a dramatic reform of the Ontario Securities Commission. This reform was undertaken because—quite frankly—we could not afford to wait any longer for the emergence of a consensus on the creation of a National Securities Commission. I hope that such a Commission can still be created because it would be in the long term in best interests of Canadians, regardless of where they live in the country. We need rules to attract and keep capital in Canada.

Question 6

Audience I have heard the speeches of the Ministers. But sometimes important points are made more effectively if they are spoken off the cuff. So, could I ask the Ministers to summarize briefly their recommendations to the federal Government on how it should spend the so-called fiscal dividend?

Response

Hon. Ernie Eves "Read Fraser Institute publications more carefully" would be my advice to the federal Government. That is the plug Michael asked me to put in.

I think that the federal Government should pay more attention to the measurable successes that provinces have had in areas of fiscal restraint. These successes contain lessons about workable solutions. They can be applied federally as well as provincially.

Hon. Janice MacKinnon My recommendations are: be balanced, continue to pay down debt, continue to reduce taxes, but also be prepared to invest strategically in the economy and in the quality of life, and you will be around for a long time.

Question 7

Audience Could the Ministers please comment on the problems raised by the pending Kyoto Agreements on global climate change, which are likely to have important effects on their provinces?

Response

Hon. Stockwell Day I do not mind commenting on the issues from Alberta's perspective. Obviously the implications of the agreements for us are huge. The recent move of the federal Government is procedurally absolutely unacceptable: last week the federal government adopted new policies in total disregard of the agreements that had been reached at the federal/provincial meetings in Regina. The government of Alberta was not even informed about the new policies. This treatment has the potential of becoming a national unity issue.

The science of global warming is, at best, suspect, as was discussed in a recent Fraser Institute publication. There is also the issue of the importance of Canada in a global setting: if Canada disappeared under the water of the melting ice-caps tomorrow, global emissions of green house gases would be reduced less than two percent. The benefits from further reductions in Canada's emissions are not very important globally but they would bring serious economic problems for the province of Alberta. At the same time, let me remind you that there already has been considerable voluntary compliance by industry to government norms and this has resulted in major reductions in emissions. Alberta industry is leading in this respect and yet we will be asked to do even more. Other jurisdictions will get exemptions and Alberta industries will move there to escape already existing Alberta regulations. We are very, very concerned about these issues.

Hon. Janice MacKinnon The federal government's unilateral actions raise question about the viability of the federal/provincial partnership. Time limitations prevent me from going into the substance of the complicated question. Let me just note that the Saskatchewan position differs somewhat from that of Alberta. On this matter we think also that balance is important.

Hon. Ernie Eves My personal opinion is that Alberta's point of view is not too far from reality. I think that we want to be very sure of scientific evidence on global warming before we set unreasonable standards and spend zillions of dollars to meet some artificial targets. I think we are moving perhaps a little too quickly on this issue. I am not saying we should turn a blind eye to it but that we better proceed in a very cautious and prudent manner.