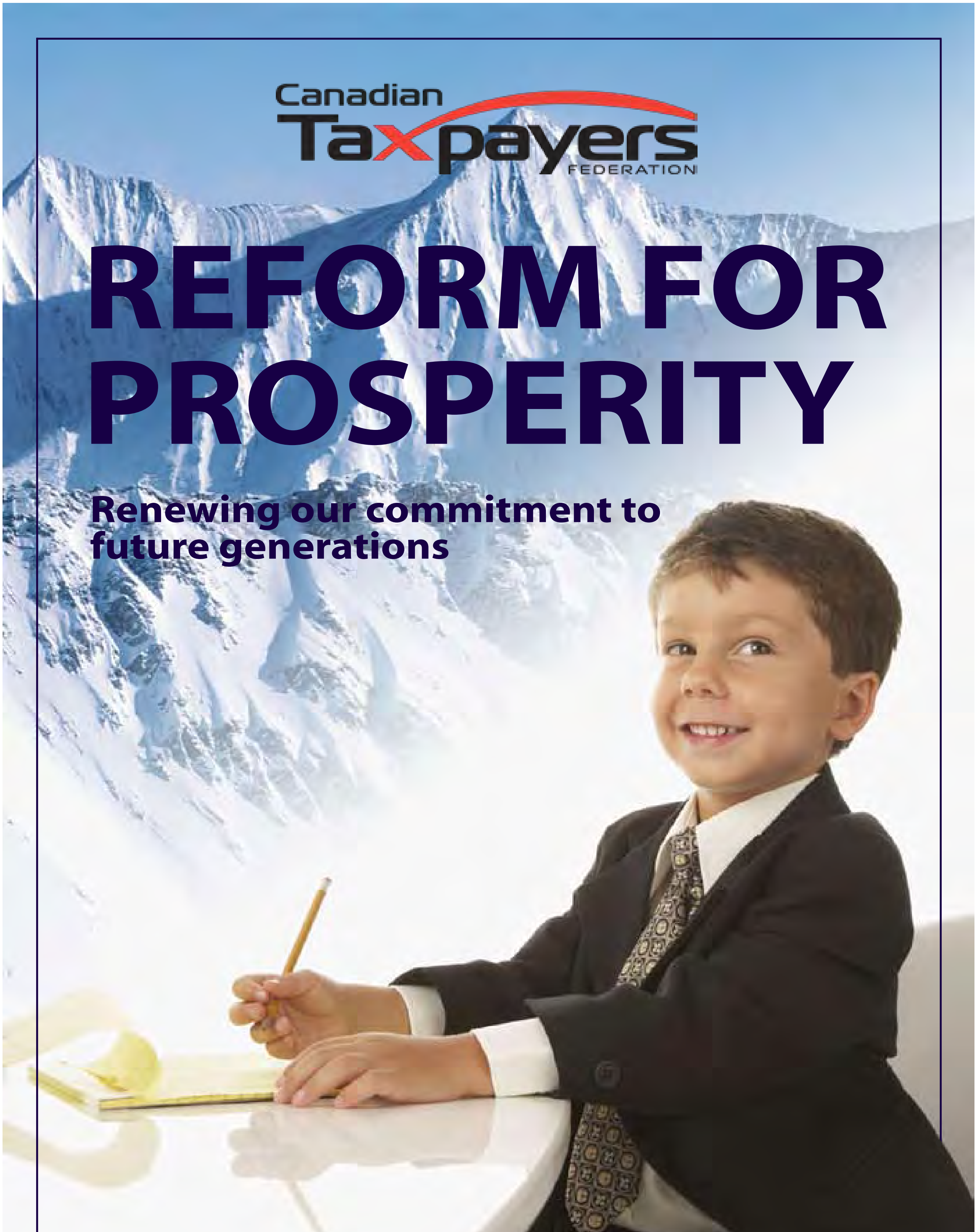
Canadian Taxpayers Federation

REFORM FOR PROSPERITY

Renewing our commitment to future generations



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About the Canadian Taxpayers Federation

The Canadian Taxpayers Federation (CTF) is a federally incorporated, non-profit and non-partisan, advocacy organization dedicated to lower taxes, less waste and accountable government. The CTF was founded in Saskatchewan in 1990 when the *Association of Saskatchewan Taxpayers* and the *Resolution One Association of Alberta* joined forces to create a national taxpayers organization. Today, the CTF has over 60,000 supporters nationwide.

The CTF maintains a federal office in Ottawa and offices in the five provincial capitals of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario. Provincial offices conduct research and advocacy activities specific to their provinces in addition to acting as regional organizers of Canada-wide initiatives.

CTF offices field hundreds of media interviews each month, hold press conferences and issue regular news releases, commentaries and publications to advocate the common interest of taxpayers. The CTF's flagship publication, *The Taxpayer* magazine, is published four times a year and provided to CTF contributors. An issues and action update called *TaxAction* is produced each month. CTF offices also send out bi-weekly *Let's Talk Taxes* commentaries to more than 800 media outlets and personalities nationally.

CTF representatives speak at functions, make presentations to government, meet with politicians, and organize petition drives, events and campaigns to mobilize citizens to effect public policy change.

All CTF staff and board directors are prohibited from holding a membership in any political party. The CTF is independent of any institutional affiliations. Contributions to the CTF are not tax deductible. It is free to join the CTF as a supporter.

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INTRODUCTION

Massive spending hikes and falling revenues have driven B.C. back into deficit. This has increased the risk of leaving future generations with a legacy of debt and higher taxes. The Canadian Taxpayers Federation's (CTF) recommendations for Budget 2010-11 focus on renewing our commitment to future generations through tax reform, deficit elimination, mandatory debt retirement, accountable government through spending reductions and greater consumer choice.

The legacy of high government spending in the previous two decades, without the tax revenue to support it, left British Columbia with a large debt burden. During the current decade, commendable spending restraint helped put the budget into surplus, however, more recent, out of control spending, has brought the budget back into deficit. Amending the balanced budget law to allow for large and continuing deficits has undermined the credibility of government. The government must renew its commitment to fiscal responsibility by bringing the budget back into surplus and achieving real debt reduction.

The CTF's number one priority for Budget 2010-11 is a legislated debt elimination plan. B.C. taxpayers currently fund interest payments to the tune of $6 million per day to service the debt and this will likely go much higher with the return to deficit spending. The deficit must be reduced by a commitment to a smaller, accountable government and lower overall spending, not by personal tax increases of any kind, including poll taxes. Government must live within the means of taxpayers to pay and must not leave a legacy of debt and higher taxes to future generations.

The second most crucial challenge today is to develop a tax system that is predictable, transparent and does not lend itself to manipulation by special interest groups or heavy-handed bureaucrats. Central to this year’s recommendations is a call for a comprehensive public review of personal income taxes to bring the same low-tax environment to citizens as has been delivered to businesses. A lower, simpler, flatter personal income tax system will promote the incentive to work, save and invest, increase disposable incomes, and generate better economic prosperity for all citizens.

Reform of government services, grounded in greater choice – including health care – will reduce demands on the public treasury and improve outcomes. Competition across sectors dominated by crown corporations will reduce costs, improve management oversight, and reduce the likelihood of more costly taxpayer-funded pay hikes and litigation.

The government's focus on fiscal responsibility and management – balanced budgets, broad-based tax relief and spending restraint – took B.C. off the equalization dole and brought it back to "have" province status. However, a complicated tax system, paying for grandiose projects with borrowed money, and wasting tax dollars on fads could derail B.C.'s long-term prosperity.

KEY RECOMMENDATIONS

- The CTF recommends eliminating the deficit by spending reductions, not tax hikes.

- The CTF recommends the government adopt a legislated debt elimination plan applying 2.5% of own source revenue to the provincial debt annually.

- The CTF recommends the establishment of a public tax review committee to lower, simplify, and flatten the personal income tax system.

- The CTF further recommends elimination of the carbon tax, the Medical Services Premium tax, and the property transfer tax.

- The CTF recommends the adoption of zero-based budgeting to focus government on essential services and squeeze out waste.

- The CTF recommends public health care spending be reformed to put patients first. The CTF recommends the repeal of section 45 (1) of the *Medicare Protection Act* that prohibits the purchase and sale of private medical insurance.

- The CTF further recommends the province expand its activity-based funding initiative.

- The CTF recommends discontinuing corporate welfare creep by eliminating all *green* subsidies, starting with the Innovative Clean Energy Fund.

- The CTF recommends greater consumer choice and lower costs to taxpayers by allowing competition in the provision of auto insurance and lottery products.

- The CTF further recommends the sale of B.C. liquor stores.

DEFICIT ELIMINATION AND DEBT REDUCTION

The CTF recommends eliminating the deficit by spending reductions, not tax hikes. The CTF recommends the government adopt a legislated debt elimination plan applying 2.5% of own source revenue to the provincial debt annually.

Out-of-control spending has eliminated the surplus and sent B.C.'s deficit to new heights. The deficit must be reduced by a commitment to a smaller, accountable government and lower overall spending, not by personal tax increases of any kind, including poll taxes. We must not leave a legacy of debt and higher taxes to future generations.

The Alberta example showed the benefits of a legislated debt reduction and elimination plan. Alberta's debt servicing costs once consumed 12 per cent of its tax revenues. By Budget 2005-06, 100 per cent of Alberta's provincial tax revenues were available for roads, bridges, schools, and hospitals. In B.C., we currently use almost 6 per cent of provincial tax revenues to fund the debt, to the tune of about $6 million dollars per day. Instead of going to bondholders, that money could fund hospitals, schools and infrastructure and lessen the burden on taxpayers.

As we have seen with the Alberta example, a law is required; vague promises don't work. Debt freedom is achievable, but only if legislation is put in place to oblige the government to follow through.

The Liberal government should be commended for getting B.C.'s debt down to $33 billion in 2006. However, lack of a legislated debt elimination plan has meant an *increase* in the debt, which is now expected to explode to almost $60 billion by 2013.

Rising debt is no longer disguised by a downward trend in the taxpayer–supported debt-to-GDP-ratio. Although this debt-to-GDP ratio may be a measure of debt affordability, using an arbitrary debt-to-GDP ratio as a goal implies the debt will never be reduced or eliminated. Continued and rising government debt must no longer be the default. The security of future generations makes it imperative to achieve real debt reduction and eventual elimination.

Out-of-control spending and higher debt does not make the economy grow over the long term. Government spending in Ontario is expected to skyrocket to $108-billion in 2009-10, almost double the 2003 spending level. This has diverted resources from up-and-coming industries to politically connected duds. Ontario has channeled untold millions into its industrial heartland, mostly to the auto industry even though Ontario's auto sector has become less important to Ontario's economy, falling from 23 per cent of GDP in 2000 to about 18 per cent in 2008.

This, and other misguided spending, has created a deficit in Ontario of $14.1 billion for 2009. As a result, Ontario's debt is expected to hit $177 billion. Even with Ontario's government-supplied "stimulus," early forecasts show that Ontario's economic decline, at about 2.9 percent in 2009, is expected to be the largest in Canada.

The lesson for B.C. is clear – creating a competitive tax system is important for the health of the economy, but lowering taxes while running up debt is unsustainable.

Taxpayers in B.C. deserve a firm commitment to debt elimination. With public debt charges at $2.2 billion – or $6 million each day – the B.C. government must start taking debt repayment seriously. If not reduced, debt charges will likely increase to $8 million per day by 2011.

TAXATION

The CTF recommends the establishment of a public tax review committee to examine personal income taxes. The CTF further recommends elimination of the carbon tax, the Medical Services Premium (MSP) tax, and the property transfer tax.

'Stimulate the economy' is the rally cry around the world these days. This has translated into tax dollars being diverted from private to public spending. However, the best type of spending stimulus is leaving more money in the pockets of those who earn it. A tax cut goes much further in stimulating the economy than government picking winners and losers.

A tax system should promote economic development and growth to position the province as an attractive venue for investment in a regional, national and international context. It should interfere as little as possible in personal and business decisions that impact investment and economic growth. It should be easy to understand, transparent to the public, simple to apply, encourage public compliance and discourage tax avoidance. Most important, the tax system should generate revenues necessary to cover the cost of essential government programs and services, no more, no less.

The tax system, its rates and compliance costs, are some of the most important factors that encourage, or discourage, investment, spending, growth and consequently, job creation. Business income tax cuts and the HST mean a more competitive environment for business investment. Now, a comprehensive review of personal taxes is required so more hard-earned income is left in peoples' pockets.

Public Tax Review Committee

Today, a lower, simpler and flatter personal income tax system is working successfully in one jurisdiction in Canada. In 1998, the CTF presented a submission, "Simpler, Lower and Flatter" to the *Alberta Tax Review Committee*. The CTF's sweeping recommendations were grounded in the premise that the "the tax system should calculate and collect taxes in the fairest, most efficient way possible for the operation of government. The tax system should not be used as a means to other political or social ends." British Columbia would be wise to heed this advice.

Tax review committee, a primer: That the government mandates a group of advisors to review the existing personal income tax system and recommend specific changes. The committee should be comprised of economists, accountants, and average citizens, as well as two provincial MLAs.

The committee will examine and recommend changes to personal income taxes and report to the Finance Minister.

The committee would receive written and oral presentations from around the province. Each phase should take no longer than six to eight months with a final report submitted to the department of finance.

The 1998, the *Alberta Tax Review Committee* adopted the CTF's recommendation of a single, low rate with few exemptions for both personal and corporate income taxes and this recommendation was almost entirely implemented.

B.C. has a complicated, five-rate marginal tax structure. A simpler, lower, and flatter tax system in B.C. will work to further encourage the most productive citizens to stimulate the economy at no cost to taxpayers.

We know from our own experience that even if personal income tax rates fall, income tax revenues can rise. B.C. personal income tax was cut across the board by 25 per cent in 2001 and then by another 10 per cent in 2007. Total revenue from personal income tax rose from $5.5 billion in 2001-02, to $6.9 billion in 2007-08. Lower tax rates create strong incentives to work, save and invest. A growing economy, not high marginal tax rates, increases tax revenue.

Critics argue that a lower, simpler, flatter income tax system hurts low-income workers. Evidence, however, shows that is not the case. The degree of progressivity in Alberta’s tax regime is shown in average tax rates – the portion of income an individual pays in personal income taxes. In Alberta, the basic personal exemption constitutes a much higher portion of income for those earning a lower income, as only a small portion of their total income is subject to tax. As a result, average tax rates for those earning a lower income are substantially lower than for those earning a higher income.

The New Brunswick government recently announced a lower, simpler and flatter tax system, and a reduction in the size of their bureaucracy. New Brunswick established a lower, simpler and flatter tax system to take effect by 2012. Personal incomes will be taxed at two rates, 9 per cent and 12 per cent, instead of four rates.

In the interest of tax competitiveness, it is time for the B.C. government to give the same breaks to individuals and families as it has given to business. To make the transition to a flatter tax system more politically palatable, B.C.'s basic personal exemption (BPE) should rise further. The recent increase in the BPE, to $11,000 from $9,373 was a move in the right direction. However, Alberta's basic personal exemption, at $16,775, is almost $6,000 dollars higher than B.C.’s. Saskatchewan's BPE is now $13,269. The CTF would recommend further increasing the BPE to $15,000 coupled with a flattening of the five personal income tax brackets.

Tax Transparency

To ensure the government not reduce one tax to great fanfare while increasing other taxes, and to keep with the ideal of a lower, simpler and flatter income tax system, the carbon tax, the MSP tax and the property transfer tax must be eliminated. The government must not give with one hand then take with another.

The Carbon Tax

Carbon taxes are a direct attack on family incomes, are costly to administer, won't make our environment cleaner and have done virtually nothing to influence the course of climate change.

The government's so-called revenue neutral carbon tax will be anything but neutral for families, businesses and people on fixed incomes. As it escalates, it will create hardship for families with active lifestyles as family budgets take a direct hit with higher home heating costs and higher than necessary gasoline prices at the pump.

The carbon tax offset for municipalities may make good headlines, but the cost involved in becoming "carbon neutral by 2012" will still flow through into higher property taxes. Additionally, exceptions from a tax further complicate its administration, making collection more costly, and drive up property taxes.

Hockey moms are unlikely to start walking their kids to practice as climate change enthusiasts might have us believe. More likely, it simply means more of the family budget is consumed by taxes, leaving less for other things in the household budget that may also become more expensive.

Carbon Taxes Don't Work

Carbon taxes are supposed to lower carbon dioxide emissions. The experience in Europe shows that almost never happens. European governments have imposed a garden variety of greenhouse gas (GHG) reduction measures since the early 1990's. Nevertheless, GHG emissions went up in Europe by 5 per cent between 1991 and 2005.

What did go down in that same period, though, were manufacturing jobs. Norway, Sweden and UK, for example, saw manufacturing jobs fall by 5.6 per cent, 18.5 per cent and 20 per cent respectively. GHG emissions, on the other hand, increased a whopping 62 per cent in Norway 11.3 per cent in Sweden, and 2 per cent in the UK. A growing economy means higher GHG emissions, but energy taxes, especially those that hurt large manufacturers, kills jobs.

Further, the policy of creating exemptions for some groups, such as municipalities, is not the solution. It merely complicates the administration of the carbon tax, increasing its cost and lessening its – however misguided – effectiveness.

The CTF strongly opposes the carbon tax, a cap and trade tax, and subsidies to alternative energy projects.

The Medical Services Plan (MSP) tax

B.C. and Ontario are the only two provinces that continue to burden citizens with a so-called health tax. Alberta eliminated its health tax effective January 1, 2009. Iris Evans, Alberta's Minister of Finance and Enterprise said, “these tax changes mean Albertans will have extra money in their pockets at a time when they might need it most. As a result, they will have more money to spend, which in turn, will benefit and stimulate the local economy."

Many British Columbians believe the MSP, or health tax, is an insurance premium paid for health services, similar to the auto premium paid to ICBC. Nothing could be further from the truth. The MSP is a poll tax – a per-person tax charging a fixed amount per individual. The health tax doesn't go to fund health care in the province anymore than it funds education, roads or anything else – it goes directly into general revenue. Without a doubt, this tax would have been eliminated long ago had it been named the ‘bureaucrat salary enhancement levy.'

The health tax is going up and has the potential to spiral completely out of control. On January 1, 2010, the health tax will increase by 6 per cent, to $684 per year for individuals, $1,224 per year for couples and $1,368 per year for families. But the most worrying part about the health tax hike is that it will rise by the same proportion as the health care budget every year. If the health budget rises by 6 per cent per year, the health tax will double in about ten years, hitting individuals with a health tax of $1,368 and families with a health tax of $2,736. Right now, about 14 per cent of B.C.'s population is 65 or older but by 2032, 25 per cent of our population will be over 65. Currently, people over 65 account for about 44 per cent of health care spending, so without reform of the health care system, health costs will continue to accelerate and so will the health tax.

This health tax directly impacts a person’s bottom line, has nothing to with health care and everything to do with a tax grab. The CTF recommends the elimination of the health tax.

The Property Transfer Tax (PTT)

The property transfer tax (PTT), introduced in 1988, has no known economic benefit, taxes mobility and is a job-killer that discourages companies from locating in B.C. Now that new homes are subject to the HST, it is imperative that the government eliminate the PTT.

The PTT is payable at a rate of 1 per cent of the first $200,000 in value, and 2 per cent of the balance. Another way of expressing the tax is 2 per cent of the property price, less $2,000.

The PTT has generated about $1 billion in revenue every year on the backs of families struggling to buy homes, searching for a better life in new cities and towns, and on businesses trying to expand into the province or into other communities.

The PTT adds to the housing affordability crisis in this province. Affordability for new home buyers is further eroded by the addition of the HST.

The HST applies to new home sales. New home purchasers will be eligible for an HST rebate of 71.43 per cent of the B.C. portion of the HST payable up to a maximum of $20,000. As new home builders will no longer be paying PST on business inputs, the builder's costs will be lower. Thus, when the new home builder adds up the costs of the new home, the cost will not include a PST amount. The government assumes that new home builders will pass that cost savings on to new home buyers, and this is the rationale behind the rebate of 71.43 per cent of the PST amount of the HST. In other words, new home buyers will not get 100 per cent of the PST amount of the HST they pay on new homes rebated, they will get what the government considers the "net" PST amount of the HST.

For example, the government estimates the current amount of embedded PST on a new $400,000 home to be $8,000. This $8,000 would have been past along to purchasers in the cost of the new home. The B.C. portion of the HST on a $400,000 home is $28,000. Purchasers will receive a rebate of $20,000 for a total B.C. HST payment of $8,000. This is, according to government calculations, no more than what the buyer would have paid in embedded PST before the HST came into effect.

This means a young family purchasing a new $400,000 condo will not only be stuck paying an additional $6,000 in PTT, they will also be hit with an additional $8,000 in the provincial portion of the HST for a total tax payment of $14,000.

A family purchasing a $650,000 home will pay $11,000 in PTT and $25,500 in BC-HST for a total B.C. tax payment of $36,500. Eliminating the PTT will help families bear the burden of high property values in the province and the additional tax burden of the HST on new properties.

But what about new homes that go on the market right after July 1, 2010? Those homes will still include the PST cost on their inputs. Transitional rules will apply and likely mean a reimbursement to purchasers of new homes sold after July 1, 2010 that still include embedded PST. This no doubt means taxpayers will be on the hook to reimburse new home buyers for that embedded PST.

Commercial property purchasers could be hit with an extra tax amounting to hundreds of thousands of dollars. This acts as a discouragement to companies looking to set up in the province and undermines the benefit from the adoption of the HST.

Governments know this is a bad tax. A motion at the BC Liberal Convention in 2006 moved that the government abolish the PTT. The resolution was passed with overwhelming support and is part of BC Liberal party policy. It's time to follow through.

Government is addicted to the PTT revenue stream and has refused to get rid of it. The CTF recommends the PTT be eliminated.

SPENDING REFORM

The CTF recommends the adoption of zero-based budgeting to focus government on essential services and squeeze out waste.

No one wants to see a program that benefits them eliminated, but at the same time, are often happy to recommend the elimination of a program that doesn't. To remove this bias, the CTF recommends an across-the-board reduction in government spending. This would be reinforced by a shift to zero-based budgeting.

In the traditional incremental budgeting process, the starting point for government spending is the existing budget. This means only spending increases require approval. This has resulted in spending skyrocketing from $30.3 billion in 2002 to $40 billion in 2009.

Zero-based budgeting starts from zero and every spending activity is analyzed for its costs and benefits. Budgets are then built around what is needed for the upcoming period, regardless of whether the budget is higher or lower than the previous one. With zero-based budgeting, all spending by each department is reviewed and approved. The introduction of zero-based budgeting will go a long way to ensure that public money is being spent efficiently, would ensure greater accountability and provide better value to taxpayers.

Zero-based budgeting advantages include: efficient allocation of resources, as it is based on needs and benefits; drives managers to find cost-effective ways to improve operations; detects inflated budgets; identifies and eliminates wasteful and obsolete operations; and identifies opportunities for outsourcing.

It removes automatic increases, creates an incentive to jettison waste, and will reduce the incentive for government departments to blow out any unspent budget at the end of the year.

Health care reform

The CTF recommends public health care spending be reformed to put patients first. The CTF recommends the repeal of section 45 (1) of the *Medicare Protection Act* that prohibits the purchase and sale of private medical insurance. The CTF further recommends the province expand its activity-based funding initiative.

Canada's government run and rationed health care monopoly is strained and produces poor results. The injection of choice into the heath system is the first step to better outcomes and lower costs. By empowering patients with private and not-for-profit options, hospitals and care givers that provide the most valued service will be rewarded.

Health is B.C.'s biggest spending program. Health accounts for 40 per cent of total government spending in 2009-10. Right now, about 14 per cent of B.C.'s population is 65 or older and by 2032, 25 per cent of our population will be over 65. People over 65 account for about 44 per cent of health care spending so without reform of the health care system, health costs will likely accelerate and more of the provincial budget will be diverted to health care. Without reform, spending will continue to rise and incentives for improved outcomes will be undermined.

Activity-based funding

Activity-based funding is a patient-focused funding model where the government pays for each procedure once it is completed. This is in contrast to the traditional, block funding model, where a hospital is given a lump sum of money. Activity-based funding exists in countries with universal-access health care programs such as Australia, Austria, Belgium, the Czech Republic, Denmark, Germany, Hungary, Italy, Japan, New Zealand, Norway, Sweden, and Switzerland. It is successful because creates the incentive to deliver more and better services and to operate more efficiently.

Alberta Health Services announced it would be implementing activity-based funding in 2010. In Sweden, provinces that moved to activity-based funding in 1993 and 1994 were found to outperform those provinces that did not, both in terms of increased output and productivity. It was estimated that the cost savings of such a reform were approximately 13 per cent. In the UK, the introduction of targets and Patient Focused Funding virtually eliminated wait lists in just a few years.

The 2008 Throne Speech committed the B.C. government to activity-based funding in the health care sector. B.C.'s activity-based funding experiment began in four emergency rooms and so far, the results have been good. The trial has shown that people don't necessarily work faster, they work better. They pay more attention to time-related activities and stop engaging in activities that do not help them. It has also increased staff satisfaction levels, a key component in staff retention.

But activity-based funding will only take British Columbia part way to a sustainable health care system.

Patient-focused system

Canada is the only OECD country where it is illegal to pay for core medical services out of one's own pocket. The result: health care rationing and long wait times for care. This won't continue. The Supreme Court of Canada has already ruled that forcing people to suffer and perhaps die on waiting lists and be prevented from seeking out alternatives is a violation of human rights of the people of Quebec.

B.C. currently faces a legal challenge. The question being asked of the BC Supreme Court is, “Should BC citizens suffering an unacceptable delay in access to care have the same legal rights as a citizen in Quebec?”

The 2005 Supreme Court ruling in the Chaouilli case determined that the Quebec government cannot forbid private health insurance from covering medically necessary services. Supreme Court of Canada Justice Marie Deschamps wrote, “I find that the prohibition infringes the right to personal inviolability and that it is not justified by a proper regard for democratic values, public order and the general well-being of the citizens of Quebec.” We outside of Quebec can hope she believes those same principles apply to the rest of us.

The government of B.C. must follow the example set by the Supreme Court of Canada and empower individuals to take control of their own health care needs.

All spending, including health care spending, must be brought under control to reduce the deficit – government must live within the means of taxpayers.

The CTF recommends the repeal of section 45 (1) of the Medicare Protection Act that prohibits the purchase and sale of private medical insurance

Green spending/ICE fund

The CTF recommends discontinuing corporate welfare creep by eliminating all *green* subsidies, starting with the Innovative Clean Energy Fund.

Corporate welfare is one of government's most wasteful spending programs. In B.C., subsidy programs channeling funds to individual *businesses* were commendably eliminated in 2002. Today, however, we see funds channeled to so-called *green* projects, that may or may not have freely received funding in the markeplace. The trend towards spending on eco-fads could quickly undo the benefits of subsidy reduction.

Corporate welfare wastes tax dollars when those dollars are handed out to activities that the market would have voluntarily supported anyway. It destroys wealth when tax dollars are spent on activities that the market would not have supported. Corporate welfare hurts the companies that receive taxpayer largesse as it tends to make them less competitive. It hurts also the companies that do not receive taxpayer largesse because those companies have to compete, and fund with their tax dollars, companies that do. Corporate welfare slows economic growth and makes society poorer, which slows adaptation to, and investment in, modern infrastructure and technology.

The Innovate Clean Energy (ICE) Fund is a case in point. In February 2007, the B.C. government created a $25-million Innovative Clean Energy (ICE) Fund to support what it considered to be green energy projects. Ironically, these so-called green projects were funded with a tax on energy that in B.C. is already 95 percent green. Why we paid a tax on green energy to fund green energy was a good question that was answered in September 2009 when the ICE fund levy was removed from Hydro bills. Now the ICE funds will come directly from general revenue. Nevertheless, this fund is only one of countless examples of a new breed of 'green' corporate welfare.

The government said the ICE Fund would be extended beyond one year if the program was successful. Success, in this case, refers to the program's popularity – and popular it was. The government got 60 applications grubbing for nearly $140 million in handouts – more than five times the amount of available funding. So, according to this rather self-serving definition of success, the program was extended and given another $25 million September 2008. This program, like many other corporate welfare schemes, creates a very strong incentive to spend time and energy applying for funding. Resources are limited, so what is spent applying for funding is likely taken away from more productive activities – like actually building green energy projects.

Meanwhile, in July 2008, the government announced the 15 lucky winners in the first ICE welfare lottery. Given this program's definition of success, it should come as no surprise that some of the winners are very good at applying for – and getting – other shades of green corporate welfare.

One of those companies, Nexterra, provides an interesting example. According to the

B.C. government news release, Nexterra received $1.5 million from the ICE fund to help build a $9 million energy plant in New Westminster. What's not on the B.C. government news release, however, is that Nexterra also received $300,000 from Natural Resources Canada (NRCan) and $345,000 from the National Research Council of Canada (NRC-IRAP) for the same project. But there's more. Nexterra got $2.7 million from another arm of the federal government, Sustainable Development Technology Canada (SDTC), in February 2007 for a similar project.

According to NRCan, Nexterra has received more than $4 million from NRCan alone for the development of this technology.

It comes as no surprise that Nexterra was also given government funding for the same type of technology in the past. Dockside Green, the so-called sustainable housing development in Victoria got $85,000 from the B.C. government. The Green Municipal Fund committed $350,000 to this project. In fact, all three of Nexterra's projects in Canada have benefited from green corporate welfare.

The ICE Fund should be scrapped. Governments have proven again and again that they are a poor replacement for the market when they try to pick winners, but are an easy mark for those seeking quick cash.

CROWN CORPORATION REFORM

The CTF recommends greater consumer choice and lower costs to taxpayers by allowing competition in the provision of auto insurance and lottery products. The CTF further recommends the sale of B.C. liquor stores.

The CTF applauds the elimination of the crown corporation Tourism BC. The challenge now is to slim further and stay slim once the economy picks up again. Taxpayers should not be funding or running organizations when the private sector is capable of doing so.

High profile mismanagement and increases in senior-level bureaucrat salaries due to salary competition from crown corporations are two reasons why crown corporations, if not eliminated completely, need to face the discipline of the competitive marketplace. Without reform, taxpayers will be forced to fund ever higher costs for executive salaries and higher salary levels for bureaucrats at all levels of government, and ßhigh compensatory costs for employee wrongdoings. Competition creates the incentive for cost control and more effective management. Crown corporations must no longer feed at the trough.

To reduce taxpayer-funded public sector employment, the inflationary effects of bloated salaries, and the long term legal liability from poor management, the CTF recommends removing the monopolies granted to the British Columbia Lottery Corporation (BCLC) and ICBC.

BCLC

The CTF recommends the government introduce legislative changes to allow competition in the provision of lottery products.

Monopolies often provide inferior service and have management and oversight problems such as those found in 2007 at the British Columbia Lottery Corporation (BCLC). Instead of reform, millions of dollars have been spent to patch over those problems. The CTF recommends the removal of the BCLC monopoly to create competition and eliminate the possibility of future taxpayer-funded executive severance and bonus packages.

BCLC has run lottery schemes in British Columbia as an agent of the provincial government for more than 20 years. The provincial government also controls and regulates BCLC through legislation, regulations and directives. The Gaming Policy and Enforcement Branch (GPEB) in the Ministry of Public Safety and Solicitor General, makes policy to ensure gaming is fair, audits for compliance, and investigates complaints about gaming in British Columbia including the lottery schemes run by BCLC.

A 2007 B.C. Ombudsman's report found not only were lottery ticket retailers winning at a higher rate than would be expected by chance, but were winning multiple times. The Ombudsman's report clearly stated that complaints about the rate of retailer winnings had to be known by senior BCLC management –yet nothing was done. It found problems with almost every aspect of BCLC's prize payout procedure.

Oversight of that crown corporation was also virtually non-existent. The government agency in charge of investigating the BCLC, the GPEB had not audited the BCLC's retailer network or complaint handling process prior to October 2006. The Ombudsman's report also found inadequacies in the investigations into the integrity of the BCLC's retail network.

As a result of the Ombudsman's report, the BCLC CEO Vic Poleschuck was fired without cause. Being fired without cause, Mr. Poleschuck walked away with a $600,000 severance package and almost $100,000 in bonus payout. Mr. Poleschuck's 2007-08 salary totaled $842,201.

Removing the BCLC from the Ministry of the Solicitor General so that both the BCLC and the GPEB are not in the same ministry, and spending millions to fix oversight problems, does not eliminate the fundamental problem with the BCLC – a lack of market-driven efficiency brought about by the requirement to compete for business.

Salary levels are high. BCLC's CEO earned $370,973 in 2008-09, and the four vice presidents made between $260,573 and $291,957 (including incentive compensation, pension amounts, vacation, car allowance and gasoline costs).

Competition would give lottery customers the opportunity to buy lottery services at an establishment they could trust. If one outlet is deemed untrustworthy, people will shop elsewhere, leaving the untrustworthy business to fail. More important, government would have a strong incentive to properly regulate the industry, unlike the situation prior to 2006 with the GPEB and BCLC. Government run monopolies are not subject to the laws of the market, or even, it would appear, their own regulators. However untrustworthy they may be, if citizens want the product, they are forced to purchase services from the monopoly.

ICBC

The CTF recommends the government introduce legislative changes to allow competition in the provision of basic auto insurance.

One of the many promises the current government made during the 2001 election was to "introduce greater competition in auto insurance, to create increased choice and reduce motor vehicle premiums." Apart from setting up a new regulator, the British Columbia Utilities Commission, there has been little change to the government auto insurance monopoly. In 2003, Bill 58 was introduced to amend the regulations of the government run Insurance Corporation of British Columbia (ICBC). However, the most important provisions governing competition and ensuring a "level playing field" for private insurance providers, (sections 50 and 51) were never proclaimed into law.

In light of rising premiums, rising costs, rising executive bonus levels, large profits and falling customer satisfaction levels, it is time to end the ICBC monopoly.

ICBC does not provide competitive insurance products for customers. While auto insurance premiums have gone up in B.C. over the past three years, those in Ontario, Alberta, and the Atlantic Provinces, provinces enjoying competitive insurance markets, have gone down. Monopoly provision of insurance in B.C. has led to rising costs for consumers.

According to data from the General Insurance Statistical Agency, between 2003 and 2007, average auto insurance premiums fell by almost 16% in Ontario, 14% in Alberta, 24% in Nova Scotia, 37% in New Brunswick, 15.5% in Prince Edward Island, and 21% in Newfoundland. Meanwhile in BC, average premiums rose 5.1% between 2003 and 2006. B.C.'s 2007 premium increased by 3.3%, while rates for "good" drivers decreased by 3.8%. In 2008, ICBC decided not to seek an increase in basic rates, after a 10% increase over the previous two years.

Salary levels are high. More than 860 of ICBC's 5,000 employees made over $75,000 in 2007. CEO Paul Taylor made $524,759 in 2007 and $140,109 for four month's work in 2008 and his is successor earned $103,710 for little more than one-month's employment in 2008. The salaries of the CFO and two senior vice presidents are over $400,000 per year each. High salary levels act to increase the demand for higher wages in the broader public sector, adding to taxpayers' burdens.

The cost to cover for extreme mismanagement also creates a burden for taxpayers. The sale of rebuilt vehicles from an ICBC training centre is an example of the breach of trust people in B.C. have been subject to from their crown corporations. The buyback of ICBC's rebuilt vehicles has cost taxpayers more than $2 million. Opening up the auto insurance market to competition will create an environment of greater accountability and no longer leave taxpayers to compensate for managerial wrongdoing.

The ICBC training facility in question was set up in 1988 to conduct repair research to reduce costs and "inform industry training" – whatever that means. The facility rebuilt between 30-40 salvage vehicles (those considered by ICBC to be cheaper to write off than to repair) per year, and then sold them. Between 1998 and February 2008, the training facility sold 98 vehicles to ICBC employees and unsuspecting buyers without revealing the vehicles' repair history. As a result of this activity at the training facility, ICBC no longer sells rebuilt vehicles. Questionable sales from the facility, however, went on for ten years. If a private dealer sold rebuilt vehicles without disclosing its history, its license to operate could be suspended, or even cancelled. Getting shut down acts as a big disincentive to ripping off consumers. ICBC, however, has not been shut down.

If the government cannot protect the public from the misdeeds of its own corporations – and those misdeeds would have been less likely to occur in the private sector – then it is time to question whether the government should be providing those services.

BC Liquor Stores

The CTF recommends the sale of B.C. liquor stores.

As of July 2009, B.C. has 197 government liquor stores and 1,151 private retailers. Those private retailers account for about 60 per cent of B.C.'s liquor sales. Private-sector involvement in B.C. liquor stores has resulted in new businesses, new jobs, and increased demand for store space, business supplies and services, computers, software, coolers, insurance, telephone and utilities, shipping services, vehicle sales and leases, advertising, security systems, and real estate.

According to a CTF study, choice boomed for consumers in Alberta with the introduction of competition. The number of stores rose from 304 government-owned liquor stores in 1993 to almost 1,300 private stores today. More important, the Alberta taxpayer assumes no costs or risks in the running of retail operations.

The government must look for cost savings by renewing its commitment to private-sector involvement in B.C. liquor stores.

The Liquor Distribution Branch (LDB) generates about $900 million per year in government revenue. This is generated primarily through a markup on the wholesale price, a hidden tax on all liquor. This tax is charged wherever liquor is sold – government or private retailers. However, it costs $300 million per year to run the LDB and those costs rise every year even though the amount of product sold through the LDB has declined. The government could reduce costs and increase choice for consumers by selling the remaining government retail outlets.

These are but three examples of how both consumers and taxpayers are poorly served when the government gets involved in the supply of services and are but three examples of how lower spending will renew our commitment to future generations.