

BUSINESS COUNCIL ON NATIONAL ISSUES

ECONOMIC PRIORITIES FOR CANADA

**A STATEMENT BY THE
BUSINESS COUNCIL ON NATIONAL ISSUES**

ANNUAL GENERAL MEETING

**TORONTO
APRIL 6, 1988**

OUR ECONOMY IS IMPROVING LET'S MAKE IT STRONGER

As Canadians, we have reason to be optimistic. Our recent economic performance has been strong -- indeed, over the past four years, we have grown more quickly and produced more jobs than any other major industrial power.

Unemployment has continued to fall. The national rate stands at 7.8 percent, the lowest since August, 1981. Over 500,000 new jobs were created in the past year alone. Business activity is robust and investment has jumped upwards very significantly. This resurgence of business investment and job creation has finally begun to make a difference to our pocketbooks. According to the C.D. Howe Institute, in the past year, national income per person increased by 2.4 percent -- about twice the average rate of the past six years.

CONFIDENCE YES, COMPLACENCY NO

Yes, we have reason to be confident. But, it would be foolish to be complacent. The fact is that we cannot count on a strong economic future as a matter of right. For one thing, we are profoundly influenced by events beyond our borders. Remember last October and "Black Monday"? The Conference Board of Canada estimates that the effect of the stock market crash resulted in a wealth loss in Canada of over \$80 billion. What triggered this sudden loss of confidence? Enormous budget and trade deficits in the United States are a major source of the problem. But so are worldwide protectionism, and the huge indebtedness and economic stagnation in the developing countries.

* This is the text of a statement tabled April 6, 1988, at the Annual General Meeting of the Business Council on National Issues.

The Business Council is composed of the chief executive officers of 150 leading Canadian corporations. With some 1.5 million employees, these companies administer over \$750 billion in assets and generate over \$275 billion in revenues.

A non-partisan organization dedicated to the development of public policies in the national interest, the Council's purpose is fourfold: to help build a strong national and international economy, progressive social policies, healthy political institutions, and a more secure Canada.

ECONOMIC PRIORITIES FOR CANADA

In Canada, one thing should be clear to all of us -- we are intimately linked to both the problems of the international economy and to their solutions. Failure to resolve them could mean a worldwide recession, a renewed rise in interest rates, escalating trade protectionism, and in time, rising inflation. The consequences for Canada of such a turn of events would be devastating. We are an open and export-oriented economy. A great deal of our national wealth, investment and employment depends on a strong international economy.

o **Support for a stronger international economy**

We must do what we can to prevent a global recession from occurring. Here our leverage is small, but as a member of G7 -- the group made up of the seven leading industrial powers -- we at least have a voice. And our message must be, "act urgently and in concert " -- in other words, "swim together or sink together". The United States, Japan and the Federal Republic of Germany must take the lead. In June of this year, the heads of the leading industrial powers will meet in Toronto. As host of the Economic Summit, Prime Minister Mulroney should seize the occasion to press for the necessary coordination and reforms.*

In December of this year, Canada will also host a very important multilateral trade conference in Montreal -- the mid-term ministerial review meeting of the General Agreement for Tariffs and Trade negotiators. Here lies an opportunity to push for swifter action in strengthening the world trading system.

o **Private sector leadership**

Our key domestic priorities must be to strengthen our economic base and to prepare ourselves as best we can for possible long-term uncertainty in the world economy. Here, the private sector has a leadership role to

* For an outline of suggested initiatives, see The Toronto 1988 Economic Summit, A Canadian Private Sector Perspective -- A Statement by the Delegation of the Business Council on National Issues at The Rome Roundtable and International Business Summit, March 24-25, 1988.

play with a strategy that combines stepped-up investment, accelerated adjustment, and increased labour-management cooperation. Let there be no doubt in anyone's mind where increased growth and job creation have come from. They flow from investment and expanded business activity. In 1987, business investment leaped upwards in excess of 15 percent. It is no coincidence that a record number of jobs were created in the same year.

Hand in hand with stepped-up investment must be accelerated adjustment -- the rapid transformation of our industries to meet expanding challenges -- both competitive and technological. And improved cooperation and understanding between employers and organized labour must pass from wish to reality. Some encouraging examples have begun to appear -- employers and union leaders in Canada's steel sector, for example, are working together to fight for access to the United States market and to deal with labour adjustment issues.

Without appropriate public policies in place, the private sector will be seriously hindered in its role as the engine of economic growth and job creation. Four policy areas deserve special attention.

o **Hold inflation in check**

Inflation, that villain that caused so much damage to our economic health just a few years ago, is never far off. Remember how it propelled interest rates skyward and destroyed investment and jobs, and eroded income security and confidence in our dollar along the way. Today, at 4 percent, it does not appear to be a threat. But our performance does not compare favourably with that of most other major economic powers. Bank of Canada Governor, John Crow, recently reminded us of the need for discipline and of the importance of price stability. He acknowledged something that we believe most Canadians firmly believe in -- the need to feel confident about the future value of our money. "Ensuring that Canada has a money its citizens can trust," he said, "is the most durable contribution monetary policy can make to our standard of living." In holding inflation in check, the Governor and the Bank of Canada is acting responsibly. The rest is up to governments and to us the citizens.

o **Reduce deficits more quickly**

A second policy area that deserves special attention is that of fiscal management and the problem of public sector deficits. Large deficits undermine confidence in our economic system. Black Monday conveyed this message in a dramatic and painful way. The Mulroney Government has made gains in the battle against deficits. The percentage of the deficit in relation to our gross domestic product has fallen significantly. Finance Minister Wilson's commitment to deficit reduction has been unflinching. Still, however, our federal deficit remains in the \$29 billion range despite five unbroken years of economic expansion and very significant tax increases. Our federal government continues to spend, in other words, some \$30 billion more than it receives in revenues. And our national debt situation is not encouraging. It likely will reach over \$320 billion, or some 55 percent of GDP by the end of the current fiscal year. We add to it by some \$80 million every 24 hours. Interest charges alone on the debt are in excess of \$32 billion. This represents more than we spend on old age pensions, family allowances and unemployment insurance combined.

Another source of concern is emerging. Due to heavy government borrowing in Canada, we have resorted increasingly to foreign capital inflows to finance these deficits. In the past two years, capital requirements from foreign sources exceeded \$10 billion each year. The astonishing result is that Canada is now the second largest debtor country in the world after the United States. By the end of 1987, we owed foreigners some \$220 billion.

In his recent budget, the Minister of Finance pointed to a slight reduction in the size of the deficit for the coming fiscal year. Our response was, "well done, Minister, but we wish you had gone further." The hard truth is that we must do much better. The C.D. Howe Institute recently argued that deficit reduction of "\$4-5 billion per year over the next three years -- would be a major step toward a more sustainable, less risky fiscal stance." We in the Business Council have consistently called for more rapid deficit reduction. And the burden of this responsibility must fall on federal, provincial and local governments, and on corporations, public authorities and individuals alike. No one other than the poor and disadvantaged among us should be spared from this vital task.

o **Finish the job of taxation reform**

A third policy area that deserves special attention is taxation reform. The Business Council has long pressed for comprehensive reform of Canada's tax laws as a way of removing obstacles to economic growth. A simplified system with lower tax rates, a broader tax base and a shift in the burden from income taxes to consumption have been among our fundamental goals. In 1987, Finance Minister Wilson began the process of comprehensive reform with a series of initiatives that generally were applauded as steps in the right direction.

But the job is far from finished. The very important second stage is yet to come -- in particular the replacement of the Manufacturers' Sales Tax with a broadly based multi-stage sales tax. Such a reform would serve the national economic interest in concrete ways. It would allow for a further reduction in rates of income taxation. It would result in a more neutral treatment of our industries and correct the present inequity that requires only some industries to pay the Manufacturers' Sales Tax. It also would result in the elimination of sales tax on exports and end the favourable treatment now accorded to imports.

The federal government is currently consulting with the provinces on sales tax reform, but progress has been slow. Within the business community, there is deep concern that this vital second stage of tax reform may founder in the face of federal-provincial disagreement. In such a case, we in the Council have urged the federal government to act on its own with a form of value-added tax, and to do so quickly. Our sense of urgency is driven by two major considerations. First, without sales tax reform, the principal rationale for changing our current cumbersome and unfair system will be ignored. Secondly, this second stage of reforms will contribute to the overall competitiveness of Canadian industries as we prepare for a free trade agreement with the United States and as we extend our markets further afield. A commitment by the federal government to introduce sales tax reform legislation in 1988 would be strongly welcomed by the Business Council.

o **Put in place winning trade strategies**

Finally, the economic priorities agenda must continue to give a special place to trade strategies that will serve the national interest. The Canada-United States free trade agreement is a vital component of a winning trade strategy. About 80 percent of our exports go to the United States. More than 2 million jobs depend on this trade.

We are convinced that the free trade agreement concluded by Prime Minister Mulroney and President Reagan will serve the national interest. It will bring some badly needed discipline to the world's largest two-way trading relationship. Tariffs will be dismantled gradually. Consumers will benefit from lower prices. Improved dispute settlement procedures will help shield Canada from the forces of American protectionism -- protectionism that Canada's Ambassador in Washington recently likened to "a wolf at the door," one that is very much alive. The agreement will provide greater certainty for the massive investment stake that we have in each others' economies. And keep in mind that Canada's investment stake in the United States is proportionally much higher than the reverse. The Agreement will require adjustments to be sure, and there are certain to be some costs. But the overall benefits to all parts of Canada will be positive -- a view subscribed to by the vast majority of businesses in Canada -- large and small.

But as important as the free trade agreement will be to our economic future, it will not solve all our economic problems -- far from it. A combination of economic policies and initiatives, both short and long term, will be necessary. Within Canada, for example, we must work much harder at dismantling barriers and permit, without restraints, the free movement of people, goods, services and capital. We must perfect, in other words, our own domestic common market. At the international level, we must vigorously support GATT reform and global trade liberalization. In the meantime, however, we must reach out more aggressively and creatively to the major markets of Europe and the Pacific Rim. We must take full advantage of the Agreement with the United States.

There are some in Canada who fear that a free trade agreement with the United States will lead to the erosion of our identity as a nation and ultimately to our loss of political independence. These fears in many cases are deeply rooted and cannot be dismissed. In reply, we should remind ourselves that economic prosperity and economic interdependence go hand in hand. They are not the enemies of self-determination, social progress and cultural enrichment. History and fact tell us that an economically strong and outward-looking society is a society that can most effectively enhance its spirit of independence, its progressive social development, and its cultural distinction. The Canada-United States Agreement is not an act of political capitulation. It is, rather, a shrewd and bold move to defend and expand our strategic national interests -- both political and economic.

THE NEED FOR VISION AND COMMITMENT

These most immediate of priorities serve as a blueprint for future prosperity. The implementation of these policies and strategies will help to generate more new jobs and make those in existence more secure. Consumers will have more disposable incomes. Our enterprises will be more competitive. Our social programs will have a stronger financial base.

But, the importance of these priorities must be understood by all Canadians. Without broad public commitment, they will fall by the wayside. Here our political leaders have a key role to play. They must have the courage to shun the temptation of short-term political gain, and the vision to implement policies that will buttress the private efforts of millions of Canadians. The rest is up to us.