

THE FEDERAL BUDGET 1990

A Statement

by

The Policy Committee

Business Council on National Issues

**Ottawa
February 27, 1990**

The Business Council on National Issues (Conseil Canadien des Chefs d'Entreprises) is the senior voice of Canadian business on public policy issues in Canada and abroad.

A non-partisan and not-for-profit organization, the Council is composed of the chief executive officers of 150 leading Canadian corporations representing every major sector of the economy. With about 1.5 million employees, member companies administer close to \$900 billion in assets.

The Council's focus is four-fold: to help build a strong national and international economy, progressive social policies, healthy political institutions, and a more secure Canada.

The Council's Executive Committee* is composed of Peter J.G. Bentley, Chairman and Chief Executive Officer, Canfor Corporation; Claude Castonguay, Chairman of the Board, The Laurentian Group Corporation; Thomas P. d'Aquino, President and Chief Executive Officer, Business Council on National Issues; John F. Fraser, President and Chief Executive Officer, Federal Industries Ltd.; J. Edward Newall, Chairman, President and Chief Executive Officer, Du Pont Canada Inc.; James H. Smith, Chairman of the Board, President and Chief Executive Officer, Domtar Inc.; and Allan R. Taylor, Chairman and Chief Executive Officer, Royal Bank of Canada.

* Members of the Business Council's Policy Committee are listed in the attachment to this statement.

**A STATEMENT BY THE POLICY COMMITTEE
BUSINESS COUNCIL ON NATIONAL ISSUES
FEBRUARY 27, 1990
PAGE 1**

In anticipating the 1990 federal budget, the Business Council on National Issues urged the government to meet two minimum objectives on the fiscal front: first, that the deficit targets set in the April 1989 budget be respected; and second, that no new taxes be raised in this budget. We also asked that the government broaden the base of its anti-deficit effort to include transfers to the provinces, that subsidies to business be curtailed, that the battle against inflation be stiffened, that privatization initiatives be accelerated, and that the groundwork for the Goods and Services Tax be laid. These requests, all aimed at helping to correct the country's precarious fiscal position and to strengthen the competitiveness of the Canadian economy, in large measure were met in this budget -- and for this we congratulate the government and the Minister of Finance.

A single, encouraging budget is no reason for complacency, however. As the Minister of Finance has warned, Canadians face unacceptably high levels of deficits and a crushing debt burden: "Our public debt has grown from \$200 billion to \$350 billion in five years... This year alone, interest payments will cost us close to \$40 billion -- equal to \$1,500 for each and every Canadian. That is ten times higher than 15 years ago... It (the debt) consumes more and more of the dollars we need to maintain existing programs, meet new priorities and keep taxes down. Ultimately, it consumes the hope and opportunity that should be the legacy we pass on to our children. Instead, a runaway debt becomes our legacy."

Given the seriousness of the country's growing debt problem, the Business Council believes it is in the national interest that the deficit fall even more rapidly than the Minister of Finance has projected through the period 1991-1995. Simply to meet Mr. Wilson's targets will require that there be no negative erosion in the current budget's fundamental economic assumptions concerning growth, inflation and interest rates. Given the volatility of the environment we are in and the period of economic slowdown that we are entering, these assumptions cannot be relied upon with any degree of certainty. A more rapid expenditure reduction track over the next three to five years will be more realistic and reassuring. In this regard, the federal Expenditure Review Committee should intensify its efforts in its continuing search for greater economies. Further expenditure cuts in this fiscal year should not be ruled out.

The case for an accelerated attack on the deficit goes well beyond just providing for possible errors in economic assumptions. A more rapid reduction in deficit spending will allow for a quicker turnaround in the alarming upward climb in the national debt. It will raise confidence in our economic future both in Canada and abroad. More specifically, it would offer badly-needed relief on the interest rate front.

**A STATEMENT BY THE POLICY COMMITTEE
BUSINESS COUNCIL ON NATIONAL ISSUES
FEBRUARY 27, 1990
PAGE 2**

The urgent need to restore Canada's fiscal strength will not succeed without some sacrifice on the part of all Canadians, save those who cannot afford such sacrifices. Low income and disadvantaged Canadians should have no part in fighting the deficit, and in this regard the government has demonstrated appropriate sensitivity by exempting from the budget's restraint measures support for those in need.

The decision to restrain the growth of total per capita cash and tax transfers to the provinces under Established Programs Financing no doubt was difficult to make -- but we believe entirely appropriate. Canada's fiscal dilemma is a national problem and restraint must be the order of the day at all levels of government. As the Minister of Finance has rightly pointed out, "If we are to restore health to the nation's finances, provincial governments must do their part, just as they too will reap the rewards of lower inflation, lower interest rates and sustained economic growth".

In this budget, more attention than usual has been paid to the problem of inflation -- and rightly so. Bringing down the current, high rates of inflation is an absolute prerequisite for achieving lower interest rates and for strengthening Canada's competitive position. All key economic actors in Canada -- governments, business, and labour -- have an obligation to assist in addressing the inflation problem.

Governments at all levels must put the goal of lower inflation at the core of their fiscal and public sector wage policies in the 1990s. So must business and labour in their wage bargaining. On the price front, business can play a valuable role by ensuring that the reductions flowing from the elimination of the Manufacturers' Sales Tax are passed on to customers and consumers when the new Goods and Services Tax is implemented. Organized labour should recognize that the one-time increase in the consumer price index associated with the introduction of the Goods and Services Tax cannot be allowed to precipitate a dangerous wage-price spiral.

Overall, the Business Council's assessment of the 1990 federal budget is that on its own, it is an encouraging step. However, much more than is anticipated in this budget needs to be done in the coming months and years -- by the federal government, by all other levels of government, and by Canadians generally -- if as a country we expect to enhance our competitiveness, unleash the full potential of our citizens, and retain our position among the world's most prosperous nations.

POLICY COMMITTEE
BUSINESS COUNCIL ON NATIONAL ISSUES

John D. Allan
Chairman and Chief Executive Officer
Stelco Inc.

Peter J. G. Bentley
Chairman and Chief Executive Officer
Canfor Corporation

William R. C. Blundell
Chairman and Chief Executive Officer
General Electric Canada Inc.

Claude Castonguay
Chairman of the Board
The Laurentian Group Corporation

Marshall A. Cohen
President and Chief Executive Officer
The Molson Companies Limited

Purdy Crawford
Chairman, President and
Chief Executive Officer
Imasco Limited

David M. Culver
Honorary Chairman
Business Council on National Issues

J. V. Raymond Cyr
Chairman, President and
Chief Executive Officer
BCE Inc.

Thomas P. d'Aquino
President and Chief Executive Officer
Business Council on National Issues

John F. Fraser
President and Chief Executive Officer
Federal Industries Ltd.

Charles H. Hantho
President and Chief Executive Officer
Dominion Textile Inc.

Kenneth W. Harrigan
President and Chief Executive Officer
Ford Motor Company of Canada, Limited

Arden R. Haynes
Chairman of the Board and
Chief Executive Officer
Imperial Oil Limited

Bernd K. Koken
Chairman and Chief Executive Officer
Abitibi-Price Inc.

R. John Lawrence
Chairman and Chief Executive Officer
Burns Fry Limited

Jack M. MacLeod
President and Chief Executive Officer
Shell Canada Limited

Gerald J. Maier
President and Chief Executive Officer
TransCanada PipeLines

Ronald N. Mannix
Chairman
Manalta Coal Ltd.

W. Darcy McKeough
Chairman
Redpath Industries Limited

David Morton
Chairman of the Board
and Chief Executive Officer
Alcan Aluminium Limited

J. Edward Newall
Chairman, President and
Chief Executive Officer
Du Pont Canada Inc.

Ronald W. Osborne
President and Chief Executive Officer
Maclean Hunter Limited

Alfred Powis
Chairman and Chief Executive Officer
Noranda Inc.

Guy Saint-Pierre
President and Chief Executive Officer
The SNC Group

Thomas H. Savage
Chairman and President
ITT Canada Limited

James H. Smith
Chairman of the Board, President
and Chief Executive Officer
Domtar Inc.

William W. Stinson
President and Chief Executive Officer
Canadian Pacific Limited

Allan R. Taylor
Chairman and Chief Executive Officer
Royal Bank of Canada

* Sébastien Allard
Director
Conseil du Patronat du Québec

* Rolf B. Hougen, O.C.
Chairman
Canadian Chamber of Commerce

* David G. Vice
Chairman
Canadian Manufacturers' Association

* Ex officio members