

BUSINESS COUNCIL ON NATIONAL ISSUES

DEFICITS AND THE NATIONAL DEBT THE SILENT THREAT TO CANADA'S PROSPERITY

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These remarks address one of the most serious threats to Canada's prosperity -- the problem of chronic deficits and expanding public debt.

The views contained in this public statement reflect the perspectives of several Business Council on National Issues Task Forces -- in particular that of the Task Force on National Finance which has given a high priority to the deficit issue for the past several years.

The Business Council on National Issues is comprised of the chief executive officers of 155 of Canada's leading corporations. The Council's goal is to contribute to the development of public policy in Canada and to assist in shaping the country's national priorities. Council task forces are currently at work in the areas of domestic fiscal policy, the international economy and trade, taxation, social policy, government organization, and foreign policy and defence.

Business Council member companies together administer in excess of \$650 billion in assets which produce annually more than \$250 billion in revenues. The member companies of the Council employ more than 1.5 million Canadians. The Chairman of the Council is Rowland Frazee, Chairman and Chief Executive Officer of The Royal Bank of Canada.

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HOW SERIOUS IS THE THREAT?

Since we started lunch, the national debt has grown by over \$4 million. Today -- this single day -- the debt will grow by almost \$100 million. Tomorrow it will do the same. And so it will grow each and every day in the coming year. It is a voracious monster. Into its gaping maw goes a higher and higher proportion of our tax dollars. This fiscal year, the interest on the national debt will cost about \$26 billion, while federal personal income taxes will produce about \$32 billion. That's about 80 percent of federal income taxes that must now be devoted to servicing the national debt.

What created this insatiable monster? Deficits -- the difference between what Ottawa collects in revenues and what it spends -- deficits that have been in excess of \$10 billion each year since 1977, and in excess of \$30 billion each year since 1983. They have piled up, one on top of the other, to produce a debt which could reach \$225 billion this year.

And this year, the federal government will spend about \$1,300 more for every man, woman and child in this country than it will collect in taxes. If nothing much changes, this will lead to a debt surpassing \$400 billion in 1990. Compare that to our debt in centennial year, 1967 -- \$18 billion.

I know that at a certain point, one big number begins to sound like another. Let me just add that our national debt is growing much faster than our economy, and that our deficits in relation to the size of our economy are among the highest in the industrialized world. In a fiercely competitive world, this is bad news. Particularly so given that the deficit of our most important trading partner, the United States, is considerably lower than ours in relative terms.

THE IMPACT OF DEFICITS AND DEBT

Some people are unimpressed by such facts. This amazes me. You would think that this monster I have described doesn't affect them. Let me assure you that it does.

Massive deficits and debt mean higher interest rates -- and I dare say, that almost every Canadian is paying interest on something.

Deficits and debt that appear to be out of control undermine confidence at home and abroad. This discourages investment. And investment is the principal source of jobs.

Massive deficits and debt threaten social and economic programs because the amount of money left to pay for them after paying interest on the debt keeps decreasing.

As you listen to this negative litany, you may ask yourselves, can it really be that bad? Isn't the Canadian economy performing rather well? Yes, the Canadian economy is performing well -- most of the indicators are very positive, in particular the job creation record of the past few years. But, some of the most important indicators are not so good. Unemployment levels are unacceptably high. So are real rates of interest. At the present time, there is downward pressure on our dollar, and upward pressure on interest rates. While this shift in dollar and interest levels is due in part to speculation, it also mirrors concern about the size of our deficit, and the general state of our public finances.

AN ANTI-DEFICIT STRATEGY

Are we helpless in the face of all of this? No. We can do a great deal. But first we must agree on certain fundamentals.

We must understand that the problem is a massive one -- it cannot be dealt with in a year or two. It will take five to ten years of dedicated attention.

Second, the federal government must take the lead, and this it must do without apology and without equivocation. The battle against deficits and debt is a battle for jobs, for growth, for security. To evade the challenge, which I readily acknowledge is a formidable one, is to betray the millions of Canadians who seek, and have been led to expect, order and discipline in our public finances.

Third, tackling the deficit and the national debt will require co-operation -- yours and mine -- and that of the endless succession of interest groups who demand more and better things of the public purse.

With these fundamentals understood, let's consider an anti-deficit strategy.

The Importance of Economic Growth

To begin with, let's appreciate what a powerful counter-deficit tool vigorous economic growth is. Canada's strong growth in the past several years, coupled with falling interest rates, has produced benefits that have

exceeded the expectations of even the Department of Finance. Were it not for this strong economic performance, this year's deficit would have been higher than anticipated.

This improvement in economic performance is due in large measure to the revival of industrial activity after the 1981-1983 recession. It would not have been as successful, however, without the encouragement of government. The Mulroney Government has helped a great deal. Witness the improvement in federal-provincial relations; the relaxation of foreign investment regulations; the energy accords; budgetary measures aimed at stimulating investment; some deficit reduction measures; concrete achievements in the area of privatization; and an historic initiative aimed at Canada-United States trade liberalization. More of this growth-oriented philosophy on the part of the national government and the governments of the provinces is essential to sustaining high levels of economic activity.

More Expenditure Cuts are Imperative

But faced with Canada's deficit problems, strong economic growth is not enough. Real cuts in government expenditure are imperative. The Business Council on National Issues is recommending cuts in federal spending in the range of \$4 billion per year over the next three to four years -- and this, in addition to cuts already announced by the government. Our goal is to see annual deficits reduced from the \$30 billion range to the \$15 billion range by 1990.

Where are these cuts to come from? Providing a detailed answer to this question is squarely government's responsibility. The Business Council has

offered suggestions in the past. I will repeat our suggestions today. But first let me make it perfectly clear where the cuts should not come from -- they should not be borne by those who cannot afford to make sacrifices -- the disadvantaged and the poor. This principle lies at the heart of the Business Council's anti-deficit strategy. It always has.

Business Must Share the Burden

Business, the beneficiary of about 12 percent of federal program spending, must bear its share of the burden. The abundant selective tax measures that benefit business -- the tax exemptions, deductions, credits, reduced tax rates and tax deferrals -- must be subject to tough scrutiny and to sizeable cuts. Industrial subsidies and grants to business -- some of dubious value -- must also be pared down.

That business can and is willing to accept major responsibility in the battle against deficits sometimes surprises our critics. Indeed, at least on one occasion, we have been accused of "Elmer Gantryism" -- preaching one thing and practising another. And why the charge? Because some enterprises ask for, and receive, government economic assistance. This in itself should not give rise to such a charge. After all, there are in Canada, as in all industrial countries, circumstances where industrial assistance is justifiable for economic and social purposes -- for example, to assist in developing new technologies, or to cushion the impact of economic transition. The charge does carry some justification, however, where there is recourse to the public purse to prop up indefinitely an enterprise that has no long-term viability. The Business Council often has spoken out against this use of public funds.

Social Spending Cannot be Exempt

Canada's elaborate system of income support programs cannot be exempted. In total, social spending accounts for close to 60 percent of all federal program spending. In this vast area of expenditure, there is room for change, and it is time for change.

The guiding principle of progressive social policy, when public monies are scarce, must be to assist those in need -- not those who are manifestly well-off, or even decently well-off; not those who, in the presence of opportunity and in the absence of any impediment, choose not to be productive members of society. The government must make changes in programs which give benefits to people whether they need them or not, and we must support those changes. The government must resist pressure to create new entitlements, new programs, which in better times would be very nice to have, but which today simply cannot be afforded.

We cannot afford today to give everybody the same public pension or the same baby bonus whether they need it or not. We cannot afford to create new pensions for homemakers regardless of whether they are in need. We cannot afford mismanagement or abuse of the very costly unemployment insurance program -- a program that is so vital to the all too many Canadians who cannot find work.

The government provides a myriad of other types of programs and benefits. We cannot afford today to satisfy each interest group, each constituency, each region, or each region within a region, by giving them

something. We must wean ourselves from these expectations and from these habits of thinking. In a sense, we must get back to basics, get rid of the frills.

New Approaches to the Public Sector are Needed

If continued economic growth, cut-backs to business, and the construction of more progressive social policies will help in the battle against deficits, so will fresh attitudes towards the role of the public sector. Tighter management in the public service is a must. Incentives to spend must be replaced with incentives to save -- and this applies to Ministers as much as to their officials. Public sector activities which can be carried out with equal or improved effectiveness in the private sector should be privatized. On this front, I applaud the Mulroney Government for the recent sale of de Havilland. The potential of privatization as a way of scaling down the size of the public sector deserves much further exploration. Stuart Butler of the Heritage Foundation in Washington believes that privatization is the most effective weapon in the counter-deficit arsenal. "It is very difficult for politicians in a democracy to retain office by promising their constituents fewer goods and services," he acknowledges. He sees privatization of a vast array of public services as a way of tackling head on the political juggernaut of spending coalitions.

The goals of improved public service management and program efficiency are perhaps closer to realization now than ever. The Ministerial Task Force on Program Review, chaired by Deputy Prime Minister Erik Nielsen, has completed fifteen months of work with extensive private sector involvement. Implementation of the recommendations, I believe, could change the face of public sector management and achieve major economies in

government programs. The Mulroney Government has here an unparalleled opportunity. It would be tragic to see it missed.

In summary then, the basic elements of an anti-deficit strategy are: maintaining, by every means at hand, strong economic growth; cutting expenditures; accelerating the process of privatization; and improving the management and effectiveness of existing government programs.

RESPONSIBILITY OF THE PROVINCES

Is this enough? Not if it applies only to the federal government. The same must apply to the provinces. Every province in Canada is in a deficit position. The combined debt of the provinces adds about \$110 billion to the federal debt of \$225 billion.

Provinces can do something about this. The Howe Research Institute recently suggested introducing competition into education and health services in order to contain ever-increasing costs. They also suggest that post-secondary education be financed by replacing federal grants to the provinces with direct grants or tax credits to students, and decontrolling tuition fees.

THE TAXATION ISSUE

So far, I have not mentioned a method for dealing with deficits often favoured by governments -- the power to tax. The Minister of Finance, faced with a skyrocketing deficit, has resorted to tax increases on several fronts. We now pay more for gasoline. Our federal sales taxes are higher. Our personal income tax exemption has been partially de-indexed. Corporations

and some individuals are paying surtaxes. And all this on top of a direct tax load already high by international standards. Like many Canadians, we in the Business Council swallowed hard when Mr. Wilson imposed higher taxes. We accepted them reluctantly -- virtually as emergency measures in the face of a rapidly deteriorating fiscal position -- a position largely inherited by the Mulroney government in 1984. But in accepting the heavier burden of taxation, we also served notice that we expected the government to press on much more vigorously with expenditure cuts.

What does the next budget hold in store on the tax front? We are not sure. But of one thing we are certain. If the tax burden rises significantly, while only token efforts are made to reduce expenditures, the business community will be very disappointed. I think many Canadians will share this disappointment.

I do not want to leave the tax issue without making one more point. I have said that tackling the deficit is essential to jobs, to investment, and to growth. Also essential is lowering our general rates of taxation. These may seem incompatible. They are not. The revenues from taxation can be maintained at the same time as general rates are lowered by making the tax system simpler, more efficient, and more broadly based. Developing such a tax system must be a priority over the next several years.

THE POLITICAL CHALLENGE

In outlining my thoughts on the perils of deficits and the debt, I hope I have not left you with the impression that the problems are insurmountable. On Prime Minister Mulroney's political agenda, I can see nothing nearly so difficult or so unpopular as confronting this issue. And yet he must.

And as he does, you can rest assured that there will be bitter complaints, cries of anguish, denunciations, and threats from numerous constituencies sprinkled throughout the country. In the words of Business Council Chairman, Rowland Frazee, fighting the deficit will be like diving head-first into a pool of alligators. All too many in the opposition benches will succumb to temptation and exploit the inevitable dissatisfaction. Some of the least responsible members of our society will persist in calling for not smaller deficits and leaner government, but more of everything. The Prime Minister, Minister of Finance, and the Cabinet as a whole, must soldier on, nevertheless. In this battle, our political generals must lead the charge.

But we all can do our part. And given this strong political leadership, I am confident that more and more Canadians will pitch in. Let's begin by putting our cynicisms aside, by giving Prime Minister Mulroney and Finance Minister Wilson the credit they deserve for having launched the battle and for having moved forward on a treacherous front. Let's accept that there is a limit to what governments can do for us and what we legitimately can demand of governments. Let's not place shamelessly on the shoulders of future generations the burden of our excesses. Let's encourage a return to fiscal sanity, knowing full-well that sound public finances will engender the most precious ingredient of economic success -- confidence. Before long, the rewards of this new sense of confidence will be plain for all to see -- more jobs, more investment, more growth, and greater prosperity for all.

NOTES ON THE SPEAKER

Thomas d'Aquino has been President of the Business Council since 1981. A lawyer, Mr. d'Aquino is also Chairman of Intercounsel, an Ottawa based consulting group. He currently acts as an advisor to a number of companies in Canada and abroad.

Mr. d'Aquino is a native of British Columbia and was educated at the Universities of British Columbia, Queen's, London and Paris. He holds B.A., LL.B., and LL.M. degrees having specialized in political science, economics, and international economic law. Mr. d'Aquino is a member of the Canadian and International Bar Associations and of the Law Society of British Columbia.

His professional experience has included: legal counsel to a national Canadian organization in the transportation field (1967-1968); four years in the federal government - one year as Executive Assistant to a federal minister and three years as a Special Assistant to the Prime Minister (1969-1972). For the past thirteen years, including periods in London and Paris, he has acted as both legal counsel and advisor to a number of governments and major enterprises in Canada and abroad.

From 1976 to 1983, Mr. d'Aquino was Professor Adjunct of the Faculty of Law of the University of Ottawa where he taught a course on the law of international business transactions, trade, and the regulation of multinational enterprise.

Mr. d'Aquino is a member of the Board of Governors of Carleton University, the Board of Directors of the Canadian Labour Market and Productivity Centre, and of the Editorial Board of Policy Options, a publication of the Institute for Research on Public Policy. He is the author of a number of publications and has lectured and travelled widely.

Mr. d'Aquino and his wife Susan live in Ottawa.

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