

# BUSINESS COUNCIL ON NATIONAL ISSUES

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## FOR IMMEDIATE RELEASE

### **TEXT\* OF LETTER ON ECONOMIC PRIORITIES ADDRESSED BY BUSINESS COUNCIL ON NATIONAL ISSUES TO:**

The Right Honourable John N. Turner, P.C.  
Prime Minister of Canada  
and Leader of the Liberal Party

Honourable Brian Mulroney, P.C., M.P.  
Leader of the Opposition  
and Leader of the Progressive Conservative Party

Honourable Edward Broadbent, P.C., M.P.  
Leader of the New Democratic Party

OTTAWA  
AUGUST 7, 1984

Reference: Thomas d'Aquino  
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\* Text available in French, upon request.

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August 2, 1984

**Rt. Honourable John N. Turner, P.C.**  
**Prime Minister of Canada**  
**and Leader of the Liberal Party**

**Honourable Brian Mulroney, P.C., M.P.**  
**Leader of the Opposition**  
**and Leader of the Progressive Conservative Party**

**Honourable Edward Broadbent, P.C., M.P.**  
**Leader of the New Democratic Party**

Gentlemen,

As the people of Canada prepare themselves to vote in the next general election little more than a month away, their minds are preoccupied with questions about the economy. Confused and anxious about continuing high unemployment and high real interest rates, they are rightly asking themselves, "Where have we gone wrong?". Faced with uncertainty, Canadians from Newfoundland to British Columbia are looking to you, our political leaders at the national level, for the clear direction we must have if we are to regain our economic strength and sense of purpose. In the remaining days of the electoral campaign, we look forward to a precise elaboration from each of you of your plans for stewardship of our economy.

Members of the Business Council on National Issues, as chief executives representing most of Canada's major enterprises, feel a special responsibility in the debate about our economic future, particularly at this important point in time when each of you is developing an economic agenda for the nation.

While we exhort you to give bold and clear shape to the following specific set of economic priorities, we are acutely conscious of our own crucial responsibilities in accelerating the country's economic engines. And we are also aware that without the active co-operation of organized labour and all the key economic interest groups across Canada, your leadership and our efforts will be severely handicapped.

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The road ahead will be tough, progress will be hard won, and sacrifices will have to be made by all of us. The simple fact is that we can no longer count on remaining in the front ranks of the world's economic powers without hard work and sacrifice. Your responsibilities in the face of the economic challenges besetting us are awesome. You must confront the urgent challenge of reducing the deficit and our soaring national debt. You must provide strong moral support in our crusade to become more competitive. You must take concrete steps to dramatically enhance the investment climate in Canada. And together, we must provide real opportunities for our unemployed and those who will be joining our workforce. These challenges require of you a blend of honesty, courage, imagination and compassion. Of all of these, perhaps honesty is the most important - the need to tell Canadians the truth about our strengths, our weaknesses, and what we must do together to respond to the two fundamental priorities which are at the heart of the economic agenda - job creation and economic growth.

Our blueprint for job creation and economic growth has five parts to it. They can be described as:

- the drive for superior competitiveness;
- the establishment of a highly attractive investment climate;
- the return to fiscal integrity;
- the re-affirmation of private sector self-reliance; and
- the maximization of our human potential.

We are of the view that clear and decisive federal government leadership in these five areas combined will provide vigorous stimulus to the economy, a positive example to the other levels of government in Canada, a leap forward in investor and consumer confidence, and a powerful incentive to the key actors in the private sector - business and labour - to work hard together to achieve our common goals.

- SUPERIOR COMPETITIVENESS

Our capacity to create jobs and to achieve sustained economic growth depends more than anything else on our ability to be competitive, to create goods and services of quality at costs which do not place us at a disadvantage against those of other economies, in particular our most important trading partners.

Do we have the fundamental ingredients for superior competitiveness? We certainly do. We have a well educated people, a skillful work force, plentiful natural resources, relatively cheap energy, a stable political system, and no serious threats to our security. Then why have we not done better? There are many reasons, but chief among them, in our view, are that we increasingly have sought to take more out of the economy than we have been prepared to put into it; we have opted for an industrial relations system biased towards confrontation rather than consensus; we have not given sufficient priority to the upgrading of our work force skills and we have not kept up with plant modernization; and as a leading trading nation, we have not moved aggressively enough to maximize access to our most important markets and to raise public consciousness of how vital trade is to our prosperity.

To counter these weaknesses, the Business Council proposes that:

1. **Canadians adopt a national inflation target in 1985 of 3 percent or less, and in future years targets in the 1 to 2 percent range. Insofar as the public sector is concerned, we recommend restraint in respect of both regulated prices and public sector salaries, and a firm commitment that public sector wages, salaries, and where possible, prices, will not increase at a faster pace than is consistent with these targets.**
2. **We move towards an improved approach to relations between management and labour in both the private and the public sectors. The principal challenge must be met through a creative process of collective bargaining at the enterprise level. But national business and labour leadership has a role to play too. Here, the Business Council will take a positive initiative and convene a special meeting of our members to explore ways to open new avenues of communication and dialogue with leaders of organized labour and working Canadians. As a first step, we have invited leaders of the labour movement to meet with us in early autumn to discuss common concerns such as job creation and economic growth.**

**We request that the Prime Minister-elect convene a national conference of business and labour leaders in early October 1984, to discuss national goals and economic strategies. We also encourage the recently-created Canadian Labour Market and Productivity Centre, with its senior labour, business and government representatives, to act as a catalyst in support of this national dialogue.**

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3. We launch a major drive to upgrade the skills of our managers and other workers, and to modernize our factories. To this end, we propose a national effort with the private sector and the federal and provincial governments working together to develop the appropriate mix of policies that will lead to a rapid and effective upgrading of our plants and the capabilities of our work force.
4. We implement new trade strategies aimed at trade liberalization generally, but focusing on new arrangements with the United States as a priority. With over 80 percent of our exports going to the United States and \$120 billion worth of two-way trade, Canadian access to United States' markets must not only be secured, but improved. To this end, the Business Council is proposing the signing of a Trade Enhancement Agreement between the two countries aimed at liberalizing bilateral trade, removing non-tariff barriers to our trade, and establishing effective machinery for solving trade disputes between the two countries. The Business Council rejects the notion that greater protectionism must be our goal. Improved export performance is fundamental to job creation and economic growth, and further liberalization of trade will be a major catalyst in this regard.
5. We adopt, as a minimum national goal, the objective of matching the economic performance of our major trading partners, and in the long run, using our natural advantages to the maximum so that we might outperform them.

● A HIGHLY ATTRACTIVE INVESTMENT CLIMATE

We have a long history as an open economy, one that has been strongly conducive to capital formation. Vigorous investment, domestic and foreign, has been the life blood of our economy, the principal source of jobs, and the main engine of our economic growth. It is with growing concern, therefore, that we have witnessed, in the past decade, the proliferation of impediments to investment both at the national level and in some provinces. The problem in some instances has been one simply of

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poor attitudes towards investment, accompanied by negative rhetoric. In some cases, negative attitudes have been reinforced by restrictive legislation.

The federal government has a crucial responsibility in shaping the investment climate, primarily through our tax laws and through our regulations governing foreign investment. Accordingly, we urge you to incorporate into your economic agenda steps that will dramatically alter our posture towards investment. To this end, we urge that:

1. You introduce changes to the federal tax system with the goals of simplification, stability, equity, and the tilting of our tax laws in the direction of investment, entrepreneurship and economic growth. The Business Council regards a sound and progressive tax system as crucial to our economic well-being. We also recognize that the shaping of such a tax system will require much hard work over several years. We in the Business Council intend to play our part. We are creating a Task Force on Taxation to channel the ideas and suggestions of our members.
2. You embrace an enthusiastic attitude towards foreign investment. We urge you to dispel the notion that is prevalent abroad that Canadians are less than hospitable to foreign investors. Begin by giving notice to the world that Canada is open for business. Follow up by re-educating an entire generation of public servants who have come to treat foreign investors with suspicion or indifference. The policies advocated by a small minority of economic nationalists favouring protectionism and restraint of commerce will lead to certain economic decline and to the loss of hundreds of thousands of jobs. Let's recognize that Canadian ownership of our economy - a worthy objective - is steadily increasing, and will continue to do so as our economy matures and as our managers and employees confidently meet competitive challenges. Reassess the instruments by which we regulate foreign investment. Eliminate the discriminatory so-called "back-in" privilege within the National Energy Program. Where the Foreign Investment Review Act (FIRA) is concerned, at the very least, clarify the criteria for assessing foreign investment proposals, streamline and shorten the assessment process, raise threshold levels, and make its operations more

transparent. If it becomes clear that negative international perceptions about FIRA are irreversible, then do not hesitate to dissolve the agency and replace it with a set of regulations that will effectively protect Canadian interests, but at the same time encourage constructive investment.

3. We work together to remove other impediments to investment within Canada. We must take concrete action within our own borders to reduce and ultimately eliminate barriers to the free movement of goods, services, capital and people among provinces. We are one country. We are supposed to be a common market - a national economic union. And yet, countless examples exist of discrimination among our provinces and our regions that are barriers to job creation and growth.

The concern of the Business Council about this fundamental issue led us to commission a study on the subject several years ago, by Professors Lipsey and Flatters. We adopted their recommendations without hesitation - that the constitution of Canada be amended to enshrine the right to the free movement of goods, people, and capital within our borders. As a first step towards this goal, we urge you to pledge that when you form a government you will invite your provincial counterparts to join with you to develop an intergovernmental code of conduct to stem the growth of these interprovincial barriers to commerce.

- FISCAL INTEGRITY

Let there be no doubt about it - massive government deficits do matter. So does a soaring national debt. They are an impediment to job creation and to economic growth. They stand in the way of one of the most important ingredients of economic stability - confidence. The federal deficit reached a staggering \$31.5 billion in 1983 and is expected to surpass \$25 billion each year for years to come. This has added to the chronic indebtedness that each of us carries on our shoulders (currently approximating \$9,000 per man, woman and child), and has saddled future generations of Canadians with intolerable burdens. The public debt has skyrocketed. More and more of our tax dollar is being diverted to pay

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interest on the debt. As was pointed out recently in a study published by the C.D. Howe Institute, "... in 1984, twenty-five cents out of every dollar of federal taxes will be required to pay interest on the debt compared to only ten cents per tax dollar in 1974."

Some Canadians continue to argue that deficits do not matter. They are wrong. At this very moment we are again facing upward pressure on interest rates. Why? Because a huge deficit in the United States - a deficit that is smaller than ours in relative terms - is overshadowing capital markets where intensified private borrowing is competing with growing public borrowing for increasingly scarce funds.

The solution to this problem, some say, is to detach ourselves from the North American capital market and force interest rates down by government fiat. We believe this is a prescription for disaster. The already devalued dollar would tumble further downwards. Confidence would evaporate. Capital outflows to the United States would accelerate, and inflationary pressures would begin to grow.

The deficit and the national debt must be tackled with unprecedented determination. We are not calling for brutal or thoughtless actions. Rather, we want to see outlined as an urgent priority a credible plan for gradual and moderate deficit reduction and for the paying down of our national debt. If we are successful in doing this, the benefits will be concrete. Confidence will receive a boost. So will investment. These in turn will translate into job creation and economic growth. To begin this process we urge that:

1. **A review be undertaken immediately on an envelope-by-envelope basis of all federal expenditures with the goal of achieving expenditure cuts of \$5 to \$10 billion per year during the course of the government's Fiscal Plan which ends in 1987-88. Based on a detailed study carried out by the Business Council in the past six months, we are convinced that attainment of this goal is possible - and that the benefits will far outweigh the disadvantages. And let there be no doubt about what we have in mind - the reductions we would like to see implemented will affect most Canadians who are beneficiaries of public monies including business people - but not touch our poor or disadvantaged.**

2. **We allocate the same priority to the goal of expenditure re-allocation. The simple fact is that some of our current expenditures result in increasingly scarce public funds being channelled towards recipients who do not need assistance. Consider some of our universal social programs, for example. Why shouldn't public support of upper income Canadians be stopped, and a large part of the benefit be passed on to those who are less fortunate among us? And what about government grants to industry? Studies have shown that many federal industrial grants are wasteful and ineffective. Would we not all benefit if some of those monies saved were aimed more specifically at job creation and economic growth?**

- **PRIVATE SECTOR SELF-RELIANCE**

Our march towards improved prosperity would be accelerated if our political leadership accepted and lived by the fundamental premise that the private sector must not be unreasonably impeded in its role as creator of jobs and economic growth. And this is not right-wing rhetoric. The private sector is enormous. It is made up of businesspeople big and small, it is composed of workers in all walks of life. It includes the vast majority of our population.

Within the Business Council we have always accepted that there are exceptional cases where governments should have a direct role in our economic lives. But what has happened in the past decade or more? We have seen governments of all political stripe reach out and become key actors when at best they should have provided only a supporting role. An example of this trend is evident in the dramatically increased percentage of GNP accounted for by the public sector - 30% two decades ago, and almost 50% today. It is vital, in our view, that the pendulum swing back towards private sector growth and that the mixed nature of our economy regain its traditional balance.

We ask you to express your unequivocal support for re-establishing this balance and improving the vitality of the private sector. To this end, we ask that:

1. You set as a national target, the net reduction over time of public sector participation in the economy to a level of 40% of GNP, and actively encourage compliance on the part of the provincial governments, where warranted.
2. You review economic sectors in which the government is a major direct player with a view to reducing that involvement through privatization or other viable means.
3. You launch a major drive to reduce the regulatory burden on the private sector and, to this end, you meet with your provincial counterparts to discuss what steps can be taken intergovernmentally to meet this goal.

● THE MAXIMIZATION OF OUR HUMAN POTENTIAL

At the heart of any plan for economic renewal must be a strategy for maximizing our human potential. As 1.5 million Canadians search in vain for employment opportunities, many of them young people, we in the Business Council say this must not go on. To allow it to continue is to confess failure, and more serious, to squander the most precious of our assets.

Solutions are not easy. Economic downturn, shifts in the nature of economic activity, expanding participation rates - all have contributed to create unacceptably high levels of unemployment in Canada and in most parts of the world. Most economists predict that these high levels of unemployment will continue.

We are not prepared to be so gloomy. We believe that the vigorous implementation of all components of our blueprint would result in a significant reduction of unemployment in Canada over the next five years, and that this represents by far the most promising strategy for creating jobs and ensuring economic growth. Hand in hand with such a strategy must be a more creative and imaginative response to the immediate needs of the unemployed. Accordingly, we recommend that:

1. The leaders of labour and business, convened in a national conference at the invitation of the Prime Minister-elect in October 1984, give prominence to specific initiatives aimed at reducing unemployment.

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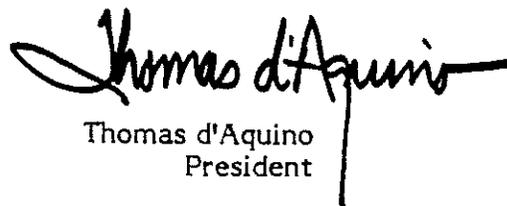
2. The rationalization of existing re-training schemes be intensified to ensure their efficacy and to ascertain that they are targeted towards sectors that have the greatest promise for job creation.
3. Sizeable pilot projects be implemented that will provide unemployed youth in the 17 to 21 year old group with a combination of classroom and workplace training. The Business Council has already pledged to the federal government its support in principle for such a program.
4. The capacity of the Canadian Armed Forces be expanded to accommodate, on a voluntary basis, the training of young Canadians preparatory to entering civilian or military careers.

We realize that the above five-point plan, with some mention of specifics, is only a beginning. But it represents, in our view, a clear, bold program that will provide Canadians and the world with a signal that the new Prime Minister and his government mean business. Should you adopt such a program, what might you expect? For one, we would experience a growth in confidence. The impact on interest rates would be positive. Our dollar in relation to United States currency would strengthen. Our unemployment, projected by most economists to exceed 10 percent for many years, would almost certainly fall below that unacceptable level. And growth, real growth, would return to this most privileged of countries, with rising real incomes for our workers and broader benefits for all.

Sincerely,

  
Rowland Frazier  
Chairman

  
Darcy McKeough  
Chairman  
Task Force on  
National Finance

  
Thomas d'Aquino  
President