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BUSINESS COUNCIL ON NATIONAL ISSUES · CONSEIL CANADIEN DES CHEFS D'ENTREPRISE

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## **CANADA'S BUSINESS LEADERS REACT TO ONTARIO BUDGET**

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In a preliminary assessment of the Ontario budget, the Business Council on National Issues (BCNI) welcomed the provincial government's decision to give priority to deficit reduction, but criticized the significant tax increases announced by Finance Minister Floyd Laughren.

The BCNI is Canada's senior business organization. Composed of the chief executives of 150 leading Canadian enterprises, member companies represent every major sector of the Canadian economy, employ more than 1.3 million Canadians, manage over \$1 trillion in assets, and have an annual turnover of approximately \$400 billion. Over 50 percent of the Council's member companies are headquartered in Ontario.

"We have long argued that governments in Canada must cure their addiction to deficit financing," commented Thomas d'Aquino, President and Chief Executive of the Business Council. "This budget signals that the Ontario government has finally begun to take the deficit seriously. The deterioration of Ontario's public finances over the past few years could not be allowed to continue," Mr. d'Aquino added. "Indeed, not just in Ontario but all across the country, reducing government deficits is essential to restoring business confidence and to paving the way for an enduring, private-sector-led economic recovery that produces long-term employment growth."

The new budget contains a deficit target for 1993-94 of \$9.2 billion, falling to \$6.8 billion in 1994-95. While supportive of these targets, the Business Council pointed out that Ontario's deficit remains worryingly high. "The reality is that much more will have to be done in future years to keep the deficit on a firm downward track," Mr. d'Aquino noted. "By the end of this year, Ontario's net public debt will have doubled to \$79 billion in just four short years. The province's financial difficulties can only be solved through a steadfast, multi-year commitment to spending restraint by the provincial government, coupled with a fundamental restructuring of many publicly delivered services."

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The Business Council urged the Ontario government to move swiftly to implement its announced program spending cuts as well as its plan to scale back wage, salary and benefit costs in the broad public sector by some \$2 billion. "We need firm assurance that the spending restraints identified in the budget are real. If the government cannot reach agreement with the public sector unions on a new social contract in the near future," the Council stated, "it should move to pass legislation that delivers the necessary cost savings.

"Bringing down the cost of government is an ongoing challenge that has to be met," Mr. d'Aquino added. "Ontario taxpayers simply cannot afford the vastly expanded public sector that developed in the 1970s and 1980s. Nor can they afford to pay the current wages and benefits of a public sector work force that has grown two to three times faster than private sector employment. A significant restructuring of the public sector that results in lower costs and better value for money is required over the 1990s."

Turning to the tax measures outlined in the budget, the Business Council strongly criticized the decision to raise taxes by \$2 billion on a full-year basis. "Even before today's budget," stated Mr. d'Aquino, "Ontario was a high-tax jurisdiction. With the top marginal tax rate rising to 53.2 percent, the province's tax environment has now been made less attractive. We are concerned that substantially higher personal income taxes will hurt savings, investment and job-creation and slow the pace of a somewhat-fragile economic recovery. Apart from this, we doubt that the tax increases announced in the budget will actually produce all of the additional revenues predicted." "Given the size of Ontario's fiscal problem," Mr. d'Aquino continued, "we understand that raising more revenues had to be part of the deficit-reduction equation. But we believe the government has relied too heavily on higher income taxes to achieve its deficit goal."

The Business Council also criticized the Ontario government for failing to act to harmonize the provincial retail sales tax with the federal Goods and Services Tax. "Harmonization of federal and Ontario sales taxes, particularly with a common tax base, would produce significant cost savings for both levels of government and reduce the current heavy administrative burden which the existence of two separate sales tax systems imposes on hundreds of thousands of Ontario businesses," the Council stated. "We urge Ontario to work with the federal government without delay to design a single, effective sales tax regime."

On the specific subject of the proposed corporate minimum tax (CMT), the Business Council expressed concern that this will make the tax system more complex and yet yield relatively little in new revenues. "We recognize that other jurisdictions have implemented minimum corporate tax systems," Mr. d'Aquino observed. "If the government is determined to proceed with a CMT, it should take care to design rules that do not impose an undue administrative

burden on companies or undermine Ontario's tax competitiveness vis-a-vis other jurisdictions in Canada and abroad."

In addition to **Mr. d'Aquino**, the BCNI's Executive Committee is composed of **J. Edward Newall**, Chairman; and Vice-Chairmen, **Peter J. G. Bentley**, **David Morton**, **Guy Saint-Pierre**, **William W. Stinson**, and **Allan R. Taylor**. They are the chief executives, respectively, of NOVA Corporation of Alberta, Canfor Corporation, Alcan Aluminium Limited, The SNC-Lavalin Group Inc., Canadian Pacific Limited, and the Royal Bank of Canada.

The Chairman of the BCNI's Task Force on National Finance is **R. John Lawrence**, Chairman and Chief Executive Officer, Burns Fry Holdings Corporation.

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