NOTES FOR DISCUSSION

NIAGARA INSTITUTE SEMINAR

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BY

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A POLITICAL AGENDA FOR CANADA

NOTES FOR REMARKS BY "THE PRIME MINISTER"

TO HIS CABINET COLLEAGUES

LANGEVIN BLOCK

OTTAWA

My dear Colleagues,

I have convened this special meeting of Cabinet in order that we can discuss an agenda of political issues likely to dominate the national scene for some twelve to twenty-four months. Following extensive consultations with each of you and with my senior advisors, I am outlining for you my thoughts on the issues I wish this Government to address in the forthcoming Speech from the Throne. At the conclusion of my remarks, I look forward to a lively debate and a constructive exchange of ideas and points of view.

Dominating my thinking, and hopefully yours, is the state of the economy. I continue to be deeply concerned - and the leaders of the industrialized world share my concern - about a slowing in economic growth and a persistence in high rates of inflation. The prognosis for the coming years, indeed for the decade, is not encouraging. Inflation is expected to remain in the double digit range until 1984 and to decline only marginly until 1990. Inflation pressures will be made worse by poor productivity. Unemployment is expected to decline somewhat until the mid 1980s and to climb thereafter.

This text was prepared by Thomas d'Aquino, President of the Business Council on National Issues, for his remarks to the Niagara Institute Seminar on Federal Government Operations, Ottawa, November 3, 1981.

The inflation we are experiencing has no simple explanation. My colleague, the Minister of Finance, says that it arises from a multiplicity of factors including the note of increase in prices of goods and services produced abroad; high interest rates resulting from the tightness of monetary policy in the United States and Canada; continued slow growth of productivity; the tightness of certain labour markets; rising domestic energy prices; popular expectations with respect to wages and prices; and the increasing inclusion of cost of living adjustment provisions in labour contracts.

I regret to say that our Government has no ready-made solutions to these fundamental problems. I am convinced, however, that with our leadership and a vigorous application of agressive policies, we can transform many of our material advantages into catalysts for growth.

Let me say a word about leadership. For too long, we have given Canadians the impression that the economy is not our primary concern, that we are lacking in a sense of direction, that we spurn the value of long term strategies. In the coming months we must work very hard to reverse these impressions. And perhaps more than at any time in this decade, Canadians are looking to us for economic leadership.

To assist us in developing our economic initiatives, I am tabling with you today, a seven point economic development strategy. This strategy was prepared in close consultation with my colleagues, the Minister of State for Economic Development and the Minister of Finance.

•**First,** I am recommending to my colleague, the Minister of Finance, that the forthcoming Budget be only mildly stimulative, that it offer grants for direct employment programs and some incentives for savings and investments. I am recommending that taxes not be raised nor lowered. I have urged him to drop from his policy alternatives any form of controls or incomes schemes.

•**Second,** we must tackle the critical issue of labour markets, and the challenge here is to improve the matching of labour force supply with changing industry requirements. I am asking my colleague, the Minister of Employment and Immigration, to consider the creation of private/public sector institutions to identify manpower requirements and to determine skill and training programs. The flow of information to workers and industries to facilitate job and worker matching must be improved. Critical skills must be developed rapidly through on-the-job training. Where internal Canadian needs cannot be met, skilled immigrants must be attracted to fill the gaps. Every effort must be made to encourage the mobility and adjustment of labour between geographical areas, industries, sectors and skills.

•**Third,** we must renew our commitment to the importance of capital formation. We must reverse the impression in domestic and foreign markets that this Government no longer looks upon foreign investments with the enthusiasm we once did. During the past two years, we have deliberately fostered both an awareness and certain policies that can quite correctly be described as nationalistic. The focus of our attention was the energy sector and implementation of the National Energy Program. While I remain convinced that the major goals of the Program are in the best interests of Canadians, and indeed supported by most Canadians, I have asked my colleague , the Minister of Energy, Mines and Resources, to review various elements of the Program - in particular, those parts of the Program which are alleged by our major trading partners to be in violation of the GATT and the OECD National Treatment principle.

•**Fourth,** I want stronger initiatives in support of both domestic and foreign market development. Specifically, I wish to see the full use of domestic markets in areas where Canadian production has or can develop an international competitive capacity. The lack of integration between the resource sector and secondary manufacturing industries has resulted in great loss of opportunity. The mining industry has no substantial mining machinery manufacturing counterpart; the fishing industry has spawned limited processing and equipment manufacturing. Machinery accounts for about $5 billion of our trading deficit in manufactured goods. The anticipated energy boom provides an excellent opportunity for governments to put in place policies that will favour Canadian industrial development, in particular, in the area of machinery manufacturing related to resource development.

Insofar as the domestic Canadian market is concerned, it is only in recent years that policy makers have begun to turn their attention to the critical issue of achieving a higher degree of integration. The failure on the part of this government to capture the imagination of Canadians with a national industrial strategy, the growing initiatives of the various provinces in legitimate pursuit of their own industrial priorities, and the consequent proliferation of inter-provincial non-tariff barriers have increasingly fractured the Canadian common market. We must renew our initiatives to counter the growth of non-tariff barriers to the movement of capital, goods, services and labour; we must support the concept of industrial specialization - that industry be linked to the comparative advantage of the region; we should actively encourage the development of an import replacement policy. I have asked my colleague, the Minister of Industry, Trade and Commerce, to take the necessary steps.

As a partial response to the post Tokyo Round trading environment, this Government has released a discussion paper suggesting changes in import legislation and procedures. The paper, which has been referred to the House of Commons Standing Committee on Finance, Trade and Economic Affairs,

proposes to update Candian trade legislation relating to anti-dumping and countervailing duties and to implement emergency import safeguards procedures. These measures will help protect Canadian business against unfair competition in the Canadian marketplace.

In the export development area, while the Export Trade Development Board is an important step in the right direction, a number of outstanding issues remain to be tackled by this Government. A policy on tax incentives for innovation and exports should be put in place. Consolidation of the foreign service to better support Canadian business abroad has yet to be implemented. The role of the Export Development Corporation in export financing continues to be the subject of debate in federal government circles, in particular the issue of interest rate competitiveness. In the trade-aid interface, there is a recognition by this government that developmental and commercial activities must become more complementary. This Government must work in close partnership with Canadian industry in all of these areas. Developments in the international marketplace are rapidly leaving us behind; the time remaining to us to turn around is very short.

•**Fifth,** I want this Government to pay increased attention to the asset base in our economy that we too often take for granted - our natural resources. It is vital in my view, that we develop and improve the management of and returns to be gained from natural resources. This will mean improving and expanding the information available about the resource base, processing more resources prior to export, and ensuring better federal-provincial co-ordination of resource management and development.

•**Sixth,** I want this Government to implement a strategy that will enable us to respond more competitively to the technological challenge of the 1980s. We must promote and exploit marketable technological opportunities which will result in internationally competitive industries. Specifically, I want to see special assistance for innovative product development in sectors where Canadian innovations are likely to be successful over the longer term. We must focus research efforts towards increasing the productivity of Canada's resource industries and to maintaining the resource base. I want to see real progress towards ,this Government's objective of 1.5% of G.N.P. for total government and non-government investment in R&D. This will require increased expenditures on the part of governments and private industry. To better understand the kind of commitment required, I have asked my colleague, the Minister of Science and Technology, to produce an outline of the broad public and private sector budgetary requirements this objective will require over at least a five year period.

•**Seventh,** I want addressed on a priority basis a plan to minimize the negative effects of regulations that might stand in the way of the seven point economic development strategy I have outlined. Specifically, I expect that competition policy legislation about to be introduced in the new parliamentary session by my colleague, the Minister of Consumer and Corporate Affairs, will give priority attention to the fundamental need of our industries to compete effectively on a world scale. The new law, therefore, must avoid a simplistic, structuralist approach. Mergers must be encouraged where they will enhance economic efficiency. Appropriate exemptions must appear in the legislation in support of specialization and joint venture agreements.

Another area of regulation that I wish immediately is that of foreign investment, in particular, the role of the Foreign Investment Review Act. It has become obvious to me that certain amendments to the current Act are necessary. Among these are clarification of the significant economic benefit test; considerably higher threshold levels for review; a more satisfactory treatment of indirect transfers of control; a tighter time-frame for review and Cabinet decision-making; proper regulation of third party interventions; and improved accountability for decisions at the Cabinet level. I recommend that proposals for expanding the mandate of the Foreign Investment Review Agency to include performance reviews and publication of takeover bids be dropped as unnecessary, impractical and potentially discriminating to foreign commerce. My colleague, the Minister if Industry, trade and Commerce, is currently studying ways of implementing these reforms.

In the area of general regulatory reform, I believe we should pay particular attention to the recommendations of the final report of the Economic Council of Canada tabled earlier this year.

Prior to passing from economic issues to social issues, I wish to make some general comments about this Government's attitude towards economic development and the role of the key players in it. I am deeply disturbed about a growing perception that our political leadership is little concerned about economic priorities, even worse that we are deliberately fostering an anti-business climate. We must correct this impression with policies that are supportive of growth, investment and initiative. We must convince business and labour that government will seek intervention only in the last resort. We must consult with private parties in the economy much more sincerely than has been the case in the past. We must send a signal to our major trading partners and to foreign investors that we have not abandoned our traditional commitment to the liberalization of trade and the free flow of investment. Finally, as a Cabinet we must provide an example to participants in the economy by exercising sound internal economic management. Accordingly, we must continue to exercise restraint in our expenditure programs. We must seek every opportunity to achieve greater efficiency in our administration. Wemust steadily and surely reduce our deficit.

Turning to social issues as a Cabinet we must continue to be mindful of the pressures of our citizens arising from increasing rates of inflation, slower economic growth and high levels of interest rates. I am advised that these pressures may continue for years rather than months. In the face of this situation, we must ensure that Canadians on low or fixed incomes have the protection they deserve.

While we must consider the short term methods of alleviating specific hardships, particularly in the area of housing, we must address with urgency the fundamental issue of pension reform and providing adequate economic security for the elderly. The fact is that most individuals and their families cannot rely solely on pension income during retirement if they are to maintain anything like their accustomed standard of living.

We must encourage the enactment of uniform provincial pension benefits legislation up to improved minimum standards in the areas of vesting, portability, survivor's benefits and inflation protection. I am persuaded that such measures will greatly increase coverage of workers by the private pension system.

We should take steps to encourage the growth of personal savings programs through improved incentives offered in the tax system. It is essential to preserve the individual's right to arrange his or her own retirement income in accordance with personal preference. As well I especially want the tax system reviewed to see how we can encourage small businessmen to provide pension plans for their employees.

We should negotiate with the provinces to improve the Canada Pension Plan but not to expand it. Control over the capital generated by pension funds should be kept in the private sector to stimulate investment and productivity. Two changes which we should press the provinces to accept in the current provisions of the CPP are: that the Yearly Maximum Pensionable Earnings should be raised quickly to the level of the Average Industrial Wage, as was originally intended, and the "drop-out" provisions for child-bearing years as recognized by the Quebec Pension Plan, but vetoed by Ontario, be adopted. A strategy for negotiating the refinancing of the current Canada pension plan should proceed without delay. I am pleased to advise that my colleague, the Minister of National Health and Welfare, is examining these issues and that our "options" will be tabled later this year.

I now wish to pass from economic and social priorities to a discussion of how we can best strengthen our political institutions and restore harmony

and balance to relations between governments in Canada. Disaffection and conflict between regions of Canada is becoming a progressively serious problem. Identification with and respect for national institutions is in decline. There is an urgent need, in my view, for this Government to propose reforms that will deal in a decisive way with strengthening the voice of the regions at the centre.

After careful consideration, in my view, the most significant reform that we can propose are changes to the upper chamber to provide for a directly elected Senate with equal representation for each province. In such a system, the Government would continue to be responsible only to the House of Commons. All votes in the elected Senate would be free votes. Among its responsibilities the Senate would be required to ratify the appointment by the Government of members to designated national boards, agencies and tribunals. As a national institution and upper chamber of bi-cameral national legislature, the Senate should be formally recognized as having an integral part in national policy formulation. I suggest that we enter into discussions with the First Ministers on our proposals and also that we explain our position directly to the people of Canada with recourse to a referendum if necessary.

Other reforms to strengthen the balance of representation in our political institutions have been proposed, one being changes to our electoral system. My advisors and I have considered these proposals and rejected them preferring rather to focus on changes to the Senate.

The suggestions to reform the operations of Parliament have also been considered and in my view we should act on these forthwith. If Parliament is to perform its primary responsibility to scrutinize proposed government spending and legislation, then parliamentarians must be given both the responsibility and the resources to do the job. Accordingly, I am asking my colleague, the President of the Privy Council, to prepare recommendations aimed at expanding the role of parliamentary committees and their research budgets. Also, I am asking him to prepare changes to House rules that will lead to greater efficiencies in procedures.

Finally, I know we are painfully aware of the disturbing trend in federal-provincial relations during the past decade where a climate of distrust and paranoia pervades. The bitter energy negotiations, recently concluded with the Province of Alberta, are vivid proof of this. At the day to day level the conflict touches many areas of jurisdiction and the resultant costs in delays, duplication and misunderstanding are enormous. The tragedy is that the conflicts do not involve simply two abstract levels of government. They increasingly have involved people, provinces and regions. Equally tragic, is the diversion of precious energy from the task of nation-building and the impression we have given to foreigners that we are incapable of governing ourselves effectively.

To help overcome this problem, I suggest that each of you undertake an urgent examination, with your provincial counterparts, of all significant areas of jurisdictional conflict. I would expect that patient negotiation and operational guidelines can result in the establishment of a more co-operative norm in the conduct of our intergovernmental relations.

The new spirit of co-operation that I am calling for will not be achieved easily in the next year. You realize that we are engaged in negotiations with the provinces on the future of federal-provincial fiscal relations. In our view, there are three major areas of concern in the negotiations; tax harmonization; economic and fiscal policy co-ordination; and intergovernmental transfers. The last of these, intergovernmental transfers, will almost certainly involve us in intense controversy with the provincial governments. In 1981-82 these transfers will amount to about $19 billion. Cash transfers alone are estimated at almost $14 billion for the fiscal year and will account for over 20 per cent of the total budgetary expenditure approved by Parliament.

Intergovernmental relations will, of course, take a quantum leap forward when we settle our constitutional future. To this end, and following lengthy negotiations yesterday between myself and the ten First Ministers, I have decided to propose to them a compromise on the Joint Resolution presented to Parliament earlier this year. I agree that a Charter of Rights should not be imposed on provincial legislatures and governments. I am suggesting rather, that the Government of Canada should provide an amendment to the constitution that the Charter would not be binding on any provincial legislature for four years, unless the legislature during that time declared its wish to be bound. At the end of four years, it would be binding in all provinces in which the legislature had not, during the third or fourth year, passed a resolution declaring that the Charter should not apply to it. When the amendment became law, the Charter would form part of the constitution of Canada. If a provincial legislature did not want the province to be bound by the Charter, it would have to pass a resolution rejecting the whole Charter.

I appreciate that there are certain risks in this approach. However, such a provision in the proposed amendment would remove the objection that the Parliament of Canada is seeking indirectly to impose its will on the legislatures of the provinces through the British Parliament. It would also go a long way towards ensuring that legislation as fundamental and as important as a Charter of Rights would meet with the approval of the greatest number of Canadian citizens and of their governments.

I am also prepared to alter my position on Section 42 of the Joint Address providing for constitutional amendment by referendum rather than by the consent of provincial legislatures. I am suggesting that the referendum process in the face of intergovernmental deadlocks be opened up to both the provincial and federal governments, rather than remain the prerogative of the Federal Government alone. I recognize that these proposals in themselves, will not eliminate differences of opinion between the two levels of government on how to best deal with our constitutional future. However, they do form the basis of a viable compromise, which at this critical moment in the constitutional debate, could serve to construct the kind of consensus we believe so necessary, prior to patriation. Furthermore, I believe that the proposals are in no way inconsistent with the "spirit" of the recent decision of the Supreme Court of Canada.

At this point in my remarks, cher colleagues, I will pause for discussions. This afternoon I would like to continue with comments about other policy areas including culture and communications, transportation, foreign policy and defense.

Thank you for your undivided attention.