

# **GROWTH, EMPLOYMENT AND FISCAL RESPONSIBILITY**

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*A Statement Before  
The House of Commons Standing Committee on Finance  
Commenting on the Government of Canada's  
Papers -- "A New Framework for Economic Policy"  
and "Creating a Healthy Fiscal Climate"*

*by  
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**OTTAWA**  
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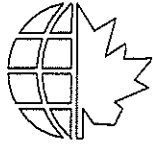
## **Growth, Employment and Fiscal Responsibility**

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Chairman Peterson and Members of the House of Commons Finance Committee.

On Monday of last week, Finance Minister Paul Martin placed before your Committee the federal government's vision for the country's economic future (**A New Framework for Economic Policy**). He spoke of five priorities:

- Helping Canadians acquire skills -- the skills to get jobs, keep jobs and find better jobs;
- Encouraging Canadians to adapt to change -- by ensuring that individuals and businesses face the right incentives to take advantage of more productive opportunities;
- Getting government right -- by ensuring that government itself, through efficient management and appropriate policies, contributes all it can to a more productive economy;
- Providing leadership in the economy -- using the comparative advantage of government in areas critical to growth and job creation such as improving the access of small business to technology and new ideas; and
- Creating a healthy fiscal and monetary climate -- by taking the necessary further action to meet the government's interim target of reducing the deficit to 3 percent of gross domestic product by 1996 - 1997, with the ultimate goal of balancing the budget.



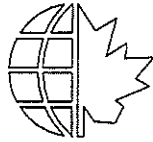
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I am pleased to say that my colleagues and I in the Business Council are in broad agreement with the priorities spelled out by the Minister. In particular, we welcome the federal government's recognition that increasing productivity is the number one objective of economic policy; that the private sector has the prime responsibility for investment, job creation and the building of economic wealth; that the elimination of rigidities in the labour market and the attainment of a positive macroeconomic environment are prerequisites to strong job creation; that high and rising levels of taxation undermine investment and jobs; and most significantly, that Canada's soaring debt levels and punishingly high debt interest costs are unsustainable and a deadly threat to growth prospects, jobs and social programs.

Recently, the Business Council made public our own vision for Canada's economic future. On September 1, we released the results of "Project Renaissance" -- **A Ten Point Growth and Employment Strategy for Canada**. Today, I am pleased to table before this Committee, a synthesis of our recommendations. In our paper, we recommend that ten imperatives guide Canadians as we prepare for the 21st century.

1. A coherent vision of our economic future shaped by enlightened public and private sector leadership;
2. A dynamic and innovative private sector;
3. An economic climate and policies that promote job creation;
4. A well-educated, skilled, innovative and motivated people;



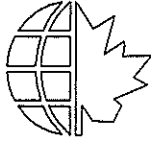
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5. Social policies that have as their cornerstones need, affordability, equity and efficiency;
6. Non-inflationary growth as a central tenet of national economic policy;
7. Balanced government budgets with low levels of public indebtedness;
8. Competitive levels of taxation that encourage savings and investment;
9. International economic policies that promote aggressive trade development and diversification; and
10. A federation characterized by free trade internally, and smaller and more efficient governments working more closely together.

While the contents of the BCNI paper and the federal government's **A New Framework for Economic Policy** are similar in many respects, there are some significant differences as to emphasis and priorities. Those differences became even more apparent when Finance Minister Martin tabled last Tuesday the second of the government's economic papers -- **Creating a Healthy Fiscal Climate**.

The first difference has to do with the critical issue of how best to confront the crippling and growing debt problem facing Canadians. While the Minister spoke convincingly of the seriousness of the problem, of its devastating effects and of the



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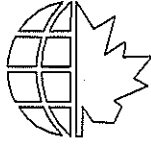
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disastrous consequences that await us if we do not act decisively, in our view, he did not prescribe a sufficiently strong remedy. Make no mistake, achieving the interim target of 3 percent of federal deficit to GDP by 1996-1997, will be no small feat. It will be painful and carry with it significant costs. But at the 3 percent level, the annual deficit will still amount to some \$25 billion and the accumulated debt will have risen to more than \$620 billion -- requiring even more of the tax dollars of Canadians to be sacrificed to debt servicing costs.

Why should the Minister be more ambitious? Because by the time he brings down his budget next February, Canada's economic recovery will be approaching the four year mark and that of the United States its fifth. By 1998, if not sooner, it is quite conceivable that Canadians will face another economic downturn. Then the deficit would begin once again its climb, Canada's debt would continue to soar, and any hope of solving the debt crisis would evaporate.

**The single-most important and responsible recommendation that this Committee can make is to press the government to lay out in the forthcoming budget a credible plan to eliminate the structural deficit by 1998-1999 at the very latest.**

The second difference as to emphasis and priorities that we have with the federal government's economic papers has to do with the critical issue of taxation. Members of this Committee know that high taxes on individuals and businesses, and the expectation of even higher taxes, is the surest way to stifle investment and consumer confidence, and to kill jobs. To the government's credit, the economic papers show very clearly that this is the case



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and that there is virtually no room for tax increases. And yet in statements made by both the Minister of Finance and the Prime Minister, the door still seems open to possible further tax increases.

**The second most important and responsible recommendation that this Committee can make is to advise the government not to add to the overall tax burden of Canadians and to forego the temptation to resort to taxes as a way of achieving deficit reduction targets.**

The third difference as to emphasis and priorities relates to an issue of fundamental importance -- the inextricable relationship between fiscal health and the strength of the federation. For the better part of the decade, we in the BCNI have warned that fiscal mismanagement of our public finances -- both at the federal and provincial level -- would undermine the support and affection of Canadians in all parts of the country for our political institutions and for those who serve in public life. The warnings were not heeded and today this great country is paying a heavy price. The first argument, it seems, of those who would wish to balkanize or dismantle the federation is that Canada can no longer pay its way.

**The members of this Committee who have taken the time to study the record know that the fiscal mismanagement so prevalent in Canada during the past fifteen years has little to do with Canadian federalism per se and much to do with a failure of political leadership. So I exhort you -- if you care as deeply as I do for Canada, to recommend to the government effective and timely solutions to the debt crisis -- or, run the risk of losing this country.**



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Before taking your questions, let me make a final point. As the BCNI's Ten Point plan demonstrates, my colleagues and I in the Business Council are full of optimism about Canada's future. With the right kind of public policies and the marshalling of the collective will of Canadians in every part of the country, we are convinced that we can deflect what we refer to in our paper as "the two daggers aimed at the heart of Canada -- soaring public debt and the threat of separatism and balkanization".

One of the underpinnings of our confidence is that private sector performance is so strong and the prospects for future growth so bright. Real growth this year likely will surpass 4 percent and it is quite possible that we will lead growth among the G-7 countries in 1995 and 1996.

The goods-producing sector, including mining, construction and manufacturing, is growing at an annual rate of 11 percent. The manufacturing sector is registering solid gains, particularly in automotive products. In the services sector, retail and wholesale trade as well as transport and storage registered solid growth.

And the story does not end here. I am pleased to report that:

- Business fixed investment continues to grow at a remarkable pace mostly because of investment by the private sector in machinery and equipment.
- Profits before taxes have increased from post-depression lows and operating profits have almost returned to their pre-recession levels.



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- Despite a significant increase in industrial product prices earlier this year, inflation levels are still expected to remain quite low. Canada's GDP deflator declined by 0.6 percent on an annualized basis during the second quarter.
- Labour productivity (real GDP per person employed) increased at an annualized rate of 2 percent and real wage demands remain quite moderate.
- Since the beginning of 1994, the Canadian private sector has created about 330 thousand jobs -- most of which are on a full time basis.

Chairman and members, given these facts, you can readily understand why I am so optimistic about our economic prospects and this brings me to my final point. As you struggle with how to deal with the single greatest threat to Canada's security and economic potential -- the public debt -- you should consider a confident and productive business sector as a great asset and a powerful ally -- as the generator of investment, the creator of jobs, a leading contributor to the public treasury, and an uncompromising defender of the Canadian economic union. We urge you, therefore, not to make the mistake of relegating us to the status of a "mere interest group" as is sometimes suggested. Our contribution is central to the Canadian agenda. We are doing our share and we look forward to doing even more in the future.



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