

BUSINESS COUNCIL ON NATIONAL ISSUES

TAXATION, SPENDING AND NATIONAL PROSPERITY

**A STATEMENT ON THE PROPOSED GOODS AND SERVICES TAX
BY THE
POLICY COMMITTEE
BUSINESS COUNCIL ON NATIONAL ISSUES**

**SEPTEMBER
1989
OTTAWA**

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As Canadians approach the autumn of 1989, it is most important that a number of pressing economic policy issues and problems be dealt with in order to ensure the prospect of sustained economic growth. This need is all the more urgent given that Canada's robust economic performance during the past seven years -- among the highest in the developed world -- is showing clear signs of slowing down.

Business investment has been the principal source of this strong performance in recent years -- a performance that has led to the best job creation record among the 24 nations of the Organization for Economic Cooperation and Development (OECD). Investors -- Canadian and foreign alike -- have demonstrated their confidence in Canada, a task that would have been more difficult were it not for a number of positive initiatives in the national economic policy domain -- for example, the Canada-United States free trade agreement, the decision of the federal government to liberalize investment regulations, and the determination of the Bank of Canada to resist inflationary pressures.

Two major and related issues in the policy environment remain unresolved, each a source of growing concern. They are sales tax reform and the rapidly expanding level of our national indebtedness.

In the area of taxation reform, and more specifically the proposed Goods and Services Tax, the Business Council's position is clear: we strongly favour its implementation. For a number of years, we have advocated the replacement of the present manufacturers' sales tax with a broadly-based tax on both goods and services. The serious inadequacies of the existing tax are incontestable: it is harmful to Canada's competitiveness; it favours imports over Canadian-made

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goods; and it is excessively complex. Moreover, Canada is the only industrialized country that continues to rely on a discriminatory tax on manufactured products.

In advocating reform, we also urged, along with a large number of economic organizations, that both the federal government and the provinces dismantle the patchwork of competing and confusing sales tax regimes and negotiate a single and more simplified tax; and that the joint initiative be given a high and urgent priority. Regrettably, the two levels of government failed to move in concert, a critical opportunity was lost, and the federal government has decided to act alone. This outcome is clearly second-best, but a necessary one nonetheless if the badly-needed reform has any chance of success. We do not accept this federal-provincial standoff as a *fait accompli*, however, and strongly urge that all first ministers commit themselves to producing a single, national sales tax as a matter of the highest priority. This is what the majority of informed Canadians are demanding. This is what will serve the country's economic interests best. In the meantime, we expect that the federal government, while vigorously pursuing a federal-provincial agreement, will proceed with its plan to have the Goods and Services Tax in place by January 1, 1991.

Turning to the substance of the proposed Goods and Services Tax, the Council's support for the overall initiative is unequivocal. We believe, however, that the planned rate of 9% is too high. We recommend instead, a rate of 7%, the reduction to be achieved by two principal means.

First, the tax base should be broadened, and the broadening effort should include groceries -- a suggestion that has many adherents, the Consumers' Association of Canada among them. Not only would such a move lead to a

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lower rate, it would help simplify the tax and cut administrative costs; and we would support it in the expectation that the tax credit system will save low-income Canadians from any adverse impact.

Secondly, expenditure restraint measures corresponding to the equivalent of about a 1% tax rate reduction should be put into effect. A rate reduction, financed in this way, would have many advantages. First, the overall burden on consumer prices would be lower and the impact on the inflation rate would be smaller; secondly, wage earners could cope more easily with the tax; thirdly, the cost of the sales tax credit and other offsets would fall; and fourthly, the Bank of Canada could afford to be more accommodating with its interest rate policy in the face of a more modest inflationary impact.

Much of the fear in the debate about the Goods and Services Tax is related to the unpredictable effects of its implementation, in particular in generating inflationary pressures. Here all the principal economic actors have a responsibility and a role to play. The Business Council on National Issues for its part will encourage members to pass on to consumers the business savings resulting from the elimination of the manufacturers' sales tax.

The vigorous debate surrounding the Goods and Services Tax has produced one very welcome result. Given that most Canadians in recent years have had to swallow huge tax increases and now face the prospect of an even heavier overall tax burden, many are seeing with unprecedented clarity the relationship between rising levels of taxation and rising levels of government spending -- spending which in this decade has led to a rapidly growing and an alarming level of national indebtedness. And let there be no doubt about it, this national

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indebtedness, the result of large, yearly deficits piled on top of one another, carries with it a very heavy cost: our interest rates are higher because of it, and our existing government programs, many of them providing vitally needed income support and social services, are endangered by it. Moreover, we are saddling our children, grandchildren, and future generations with an unconscionable financial burden not of their making.

Irresponsible spending, for which Canadians collectively bear blame, must stop. We must learn to live within our means. We must pay for our past excesses. The proposed Goods and Services Tax, even with its defects, is an essential step in the right direction. But sacrifices on the part of taxpayers must be matched by a serious and ongoing commitment on the part of our political leaders -- national and provincial -- to practise more vigorous expenditure restraint. A growing number of Canadians are calling for evidence of this restraint.

Expenditure restraint initiatives in conjunction with the Goods and Services Tax would signal that the government has received the message. The provinces too can signal that they have heard the message by trimming their own spending plans and by joining with the federal government in exercising restraint in the resort to the taxing power.

At the outset of this statement, we emphasized how important a positive policy environment is to sustaining the strong levels of economic growth that we have experienced during the past seven years. A fair and competitive taxation system within a fiscally responsible society are key essentials of such an environment.

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For these reasons, we urge all those engaged in the current debate about taxes and public spending to focus on three imperatives.

- o First, endorse the principle underlying the Goods and Services Tax – that a broadly-based tax on both goods and services will lead to major improvements over the existing and seriously deficient manufacturers' sales tax.
- o Secondly, to encourage simplicity and to reduce the inflationary impact, support a lower rate of taxation at 7% rather than 9%, and finance the reduction by a move to a more comprehensive base coupled with expenditure restraint measures.
- o Thirdly, urge the federal government to stick to its timetable of introducing the new Goods and Services Tax by January 1, 1991; but petition Canada's first ministers to enter into urgent negotiations with the objective of establishing a single, national sales tax at the earliest possible date.

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