

THE TRIPLE CHALLENGE

**An Economic Statement
of the
Business Council on National Issues**

**Ottawa
September 9, 1987**

**ECONOMIC STATEMENT
BUSINESS COUNCIL ON NATIONAL ISSUES
SEPTEMBER 9, 1987
PAGE 1**

As the autumn of 1987 approaches, Canadians are faced with a number of important economic challenges that are critical to our growth and job-creation. These challenges are the establishment of a vigorous and globally-oriented international trade strategy, the construction of an efficient and competitive tax system, and the strengthening of our resolve to achieve greater responsibility in our public finances.

CANADIAN ECONOMIC PERFORMANCE

These challenges confront us at a time when, by international standards, overall Canadian economic performance continues to be robust. Progress since the severe recession of the early 1980s has been steady -- aided in the past five years by declining overall rates of interest, falling inflation, improved consumer and investment confidence, stronger export performance, and declining federal deficits.

As Canadians prepare for a sixth consecutive year of economic expansion, indicators point to growth that should exceed 3 percent and to a continuing decline in unemployment. While the unemployment rate stands at an unacceptably high 8.8 percent, it has fallen to its lowest point since February of 1982. Higher prices for many of Canada's commodity exports along with stronger growth in the United States economy in 1988, are expected to result in further improvement in the country's trade balance.

Sources of concern in an otherwise encouraging economic picture are the still substantially uneven performance of the various regional economies, and the growing danger of inflation. While we can hope for a gradual strengthening over time of the Western and Atlantic economies in relation to those of Ontario and Quebec, the problem of inflation requires more urgent attention. The rate of increase in the consumer price index (CPI) has been moving steadily upwards for several months and now stands at 4.8 percent. This rate is higher than in any of the economies of our major trading partners, and if it continues to rise, it will undermine the economic progress of the past several years.

The BCNI urges Canadian government, business and labour leaders to remain sensitive to the dangers of renewed inflation by working to restrain the upward cost pressures that result from irresponsible wage, price, taxation and regulatory policies.

**ECONOMIC STATEMENT
BUSINESS COUNCIL ON NATIONAL ISSUES
SEPTEMBER 9, 1987
PAGE 2**

TRADE POLICIES AND STRATEGIES

Canada's prospects for economic growth and job creation are closely linked to our ability to compete effectively in the global marketplace. With about one-third of national income and some three million jobs dependent upon exports, securing the markets we have and developing new ones must be a central part of the country's economic strategy.

A dominant part of this strategy is the Canada-United States trade initiative aimed at establishing a free trade area between the two countries on terms that will be mutually advantageous. While the Council -- supported by the views of the vast majority of businesses both small and large, consumer groups, the Macdonald Commission, and economic research organizations -- has long advocated such an agreement, our judgment on the pact itself must await the conclusion of the current negotiations in early October.

We realize that at this point in time, a successful result in the negotiations is by no means certain. The BCNI's expectations of the agreement, however, are now a familiar part of the public record, and will not be repeated here except to emphasize several points. First, the agreement must be comprehensive and deal with tariff and non-tariff barriers within an appropriate transition framework. Secondly, it must contain an effective apparatus for settling disputes that does not undermine fundamentals of sovereignty in either country. And thirdly, the agreement must not compromise the ability of Canada to maintain its cultural identity and to control domestic policies essential to its development and economic independence.

We recognize that there is considerable opposition within Canada to an agreement with the United States. Some of this opposition is based on legitimate concerns -- concerns that we share and that we hope will be satisfied once the terms of the agreement are known. But some of the opposition is based on a refusal to contemplate an agreement of any kind with the United States. We condemn this thinking for three reasons: first, because it does not offer Canadians viable policy alternatives. Secondly, because it ignores our acute vulnerability as an export-dependent nation in the face of rapidly intensifying protectionist pressures in the United States and globally. And thirdly, because it fails to recognize that long-term Canadian growth and job-creation depend on our ability as a nation to compete globally. A first step to achieving this global capacity is to achieve competitiveness in the North American context.

THE TAXATION ISSUE

Just as vigorous and outward-looking trade policies and strategies -- with or without a formal agreement with the United States -- are critical to Canada's future economic prospects, so is an efficient and competitive system of taxation. In 1986, the BCNI tabled its recommendations for comprehensive taxation reform. As the cornerstones of reform, we advocated that personal and corporate income tax rates be sharply lowered, that the income and sales tax bases be broadened, and that the current reliance on personal income taxation be reduced by shifting the burden of taxation towards consumption. Underscoring these fundamentals was the Council's insistence that the initiative be a comprehensive and integrated one, and that reform result in a taxation system that is competitive with those of our major trading partners.

Recognizing the need for basic reforms, the federal government earlier this year tabled its proposals in the White Paper on Tax Reform. The initiative was consistent with some of the major thrusts recommended by the BCNI. But we have also concluded that the government's proposals fall short in some significant respects. Our dominant concerns are the following. The reductions in income tax rates combined with the broadening of tax bases are encouraging -- but they do not go far enough. Canada retains excessively high income tax rates.

The government's proposed National Sales Tax, without doubt, would be far preferable to the antiquated Manufacturers' Sales Tax presently in place. But the Council is concerned about the uncertainties and potential delays that may be associated with the design and implementation of a new sales tax regime. In the absence of such a regime, the government's overall taxation package remains unbalanced and significantly limited in its effect. Furthermore, the proposed reforms, in the absence of action on the sales tax, will result in some enterprises being at a competitive disadvantage with their American counterparts. This result is of dubious economic wisdom and in the Council's opinion should be reassessed.

To remedy the most serious problem associated with the government's tax reform proposals -- the separation of income tax reform from sales tax reform -- we urge that the Finance Ministers of the federal government and the provinces accelerate their consultations and work to achieve an agreement in principle on sales tax reform by January 1988. Having achieved an agreement in principle by that date, we recommend that legislation be introduced in the first quarter of 1988 and that a federal-provincial, multi-stage sales tax be adopted by January 1989.

**ECONOMIC STATEMENT
BUSINESS COUNCIL ON NATIONAL ISSUES
SEPTEMBER 9, 1987
PAGE 4**

We recognize that the federal and provincial governments may balk at the ambitious schedule we are recommending. Nevertheless, we are convinced that a combination of political will and administrative efficacy can overcome the obstacles that stand in the way. A swift resolution of this outstanding issue will contribute very significantly to business certainty and confidence -- essential ingredients of economic development.

THE DEFICIT AND THE NATIONAL DEBT

The third economic challenge facing Canadians is one that the BCNI on many occasions in the past has characterized as the "most serious, long-term threat to our national prosperity". We refer to the problem of deficits and the escalating national debt. Despite Canada's strong economic expansion over the course of the past five years, steadily falling unemployment levels, and a rapid increase in tax receipts, the federal deficit remains close to \$30 billion.

Many Canadians may find such a sum meaningless until we remind ourselves that cumulative deficits -- in excess of \$30 billion every year since 1983 -- have saddled the body politic with a national debt of some \$275 billion. The interest alone on the national debt -- \$28.2 billion this year -- means that we are falling into debt at the rate of over \$80 million per day. Persistent deficits and a soaring national debt undermine confidence in Canada and abroad in our ability to manage our public finances. These fears contribute to higher interest rates and to a weaker currency. Jobs are more difficult to create or to keep in such an environment. And as we refuse to face up to our financial responsibilities, we shift the burden to future generations.

The federal government, to its credit, has reduced its financial requirements and has slowed the pace of spending that for a time was almost out of control. But it has relied heavily in the past couple of years on the instrument of taxation to restrain the deficit. In the Council's view, taxation is not an acceptable substitute for more vigorous expenditure restraint.

In the coming year, pressures to increase spending significantly to fund new programs will grow. Financial demands from the provinces and special interest groups will intensify. From within the federal government itself, cries will be heard to "damn the deficit and accelerate spending". Some members of the Opposition will try to convince Canadians that deficits do not

**ECONOMIC STATEMENT
BUSINESS COUNCIL ON NATIONAL ISSUES
SEPTEMBER 9, 1987
PAGE 5**

matter much. If these views ultimately prevail, the consequences for job-creation and for non-inflationary economic growth will be seriously negative.

The battle against deficits is not a federal government responsibility alone. The provinces too carry a heavy responsibility -- a responsibility that generally has not been taken seriously enough given the fact that all ten provinces are carrying a significant and rising debt load. Special interest groups and business are not exempt from the challenge of confronting deficits either. Only when we all accept that fighting deficits is a collective responsibility will true progress be made.

THE TRIPLE ECONOMIC CHALLENGE

In the coming year, Canadians face important challenges about our trading future, about how we are taxed, and about government spending. In many respects, these three important areas are linked. How we, and in particular those who lead us, respond to these challenges will make a great deal of difference to our jobs, our growth and our prosperity for many years to come.