

View of the Reform Party

PRESTON MANNING

We are now well into this discussion of where to go once the budget is balanced and this question has preoccupied our thinking for the last number of months. In particular, we have been concerned with whether there are optimal levels of government, taxation, and debt, which ought to guide us once we get beyond the balanced budget. Reform's thinking on this subject is contained in a discussion paper called *Beyond A Balanced Budget*. Monte Solberg, our finance critic and Jason Kenney, our revenue critic, are in the process of consolidating what they learned from our consultations on that subject.

Here is a short outline of our thinking at this time. On the size of government, we are convinced that there is such a thing as an optimal size of government—that, if government spending, activities, and taxation exceed some percentage of GDP, they become counterproductive. We believe that this optimum level of government is somewhere in the vicinity of 30 percent of GDP for Canada, which is a long way below where we are now.

With respect to debt reduction and tax relief, we fundamentally disagree with the government that the first priority for the use of the fiscal dividend should be increased spending. We are conscious every day in the House that the Liberals have an instinctive desire to spend and tax. Maybe this desire is in their genes or chromosomes or something because it is genetic and certainly not rational.

In the throne speech, the Liberals made a commitment to spend 50 percent of any surplus and put 50 percent toward debt reduction and tax relief. But immediately thereafter, they made 29 proposals for additional spending. There were no concrete ideas about debt reduction or tax cuts. We are conscious of the fact that when the Liberals are confronted with any kind of problem, whether it is the deficit, global warming, or problems with the CPP, their instinctive reaction is to tax to solve the problem.

Reform's instincts are fundamentally different. Our instinct is first of all to limit the growth in government spending to 6 percent to keep up with the growth in GDP and population. Half of the surplus beyond that will be used for debt reduction and half for tax relief. We acknowledge that a case can be made for increased investment in certain areas, perhaps in health care, research, and development or post-secondary education. However, we believe that these needs should be met through the re-allocation of budgets within the existing envelopes rather than through additional spending.

With respect to a debt reduction target, we are pleased to see groups like the C.D. Howe Institute and the Fraser Institute calling on governments to promote responsible approaches to debt reduction and to set targets. The Prime Minister has set a target for reduction of CO₂ emissions. We would encourage him to carry on into the area of debt reduction. We support these proposals that have come from the think tanks. I would be interested to know whether there was anything presented this morning that should lead us to re-examine Reform's aim at long range of getting the debt to GDP ratio to the 20 percent to 25 percent range within 20 years.

With respect to tax relief, in the 1997 election we campaigned on the vision of a leaner, smaller, efficient government, a focused federal Government, and a significant reduction in taxes. Our "fresh start" tax-relief package included a reduction of about \$3 billion in the EI premiums paid by Canada's employers and a reduction of \$12 billion in personal income taxes through a variety of measures—increasing the personal exemption, the spousal exemption, some changes in the child care tax deduction, and a 50 percent reduction in capital gains tax. We are pleased that a Liberal-dominated Finance Committee has stolen a number of our ideas on tax relief, and we hope that the government does take our advice on some of these recommendations. It is funny that when we put these things out during the election campaign they were called tax cuts for the rich, even though we took about 1.3 million lower- and middle-income tax payers off the tax roll altogether; but now that they are reproduced in the Liberal document, they are called "Responsible Proposals for Tax Relief."

The challenge for the Fraser Institute now is to provide the intellectual foundation for moving beyond the balanced budget and communicating that foundation as effectively as possible to opinion leaders. In the political arena, I see the Reform Party facing a communications challenge and a credibility challenge. With respect to communications challenge, we have a huge job to acquaint the public—and I mean large numbers of people who ultimately vote—with the dangers and costs of high debt and high taxes. We intend to hammer away on the themes that the high debt is bad, fiscally and socially, the latter because the interest cost on a high debt erodes our capacity to finance social programs.

We will also hammer away on the simple fact that taxes kill jobs. People want to know why the unemployment rate is so high presently. One of the reasons is that we are just not leaving enough dollars in the pockets of consumers to spend and of business to invest. We will also stress one of the positive benefits to the public of debt and tax relief. It is the shortest way to higher disposable income, more jobs, and getting more stable financing for social programs.

With respect to the second challenge, I think it imperative that we be credible on this subject, which is why your research is so important. We will get the public's ear on this subject of debt reduction and debt targets, and we will get their ear on tax relief, but we better be right in what we say. We cannot afford a debate in Canada like that in the United States on the flat tax. In that debate, the disagreements among the advocates of different versions of the tax damaged the basic idea more than the comments of the critics.

At the provincial level, I suggest that Premiers like Ralph Klein and Mike Harris are credible on this subject, and will be credible because they practise what they preach with respect to balanced budgets. At the federal level, there is a credibility problem, because the Liberals did not use the opportunity to balance the budget and reduce the debt and taxes when they first came to office. In fact, they did exactly the opposite. They ran up an even higher debt by running deficits in excess of \$40 billion and raised taxes 71 times. There is a sobering lesson for all of us in this. Professed ideological conservatives in the academic community and political arena, no matter what our political stripe, can lose credibility. It is especially possible to lose it, if we fail to deliver on the principles and our commitments.

Reform is now the official opposition to the government. This gives us the opportunity to become the most credible federal advocate for federal debt reduction and tax relief. We intend to take advantage of this opportunity. We have carried the ball on deficit reduction in Parliament since 1993, and we now intend to carry the ball on debt reduction and tax relief until the goal line is crossed.

View of the New Democratic Party

NELSON RIIS

When I was first elected in 1980, Tommy Douglas sat me down with a number of others and gave us very practical advice. He told us “Debts and deficits are very bad things. When you are beholden to bankers, you cannot do the things that you want to do as Social Democrats.” Today the high government debt prevents us from having the social programs the NDP wants.

When pre-budget hearings in Vancouver began in the Fall of 1997, Paul Martin, the Minister of Finance indicated that the government had cut up its credit card. They had wrestled the deficit to the ground. This remark made me think how easy it is to cut up your credit card when you ask other people to use theirs, because this is what the federal government has done by off-loading its financial problems on other levels of government, on students and their families who have to pay more for education, on sick Canadians waiting in long lineups, and on families who face the increased costs of caring for their elderly parents and children.

This off-loading of the deficit should stop us from feeling smug about the attainment of a balanced budget. The Minister of Finance keeps on saying that he had no other way of dealing with the deficit; I will simply say that he is categorically wrong. There were other alternatives. Janice MacKinnon has described the ways in which Saskatchewan dealt with a very serious deficit and debt issue. They made the needed

hard choices but they did not reduce the funding to social programs and health care. As a matter of fact, they increased health-care spending by \$100 million to make up for the cuts that the federal Government had imposed on them. At the same time they were fiscally prudent and were the first province to balance its budget.

Speaking for the NDP, I consider unacceptable the Liberal proposals that 50 percent of future budget surpluses should be used for increased program spending and 50 percent for debt reduction and tax relief. I think that Saskatchewan's decision to use one-third for spending increases, one-third for tax relief and one-third for debt reduction is appropriate for the federal government. Its much larger cuts in program spending and especially health care and education require devoting 50 percent of the surplus to spending increases to restore them to their needed levels.

However, I think it is important for the Fraser Institute and for ourselves as parliamentarians to work on credibility for our causes. It is not enough for us to talk about figures. We need also to talk about people. For example, I have two sons, aged 25 and 27. Recently we discussed the first food banks in Canada, established in Edmonton in 1989. Today there are over 900 food banks in Canada. Some food banks have large numbers of subsidiaries, like the main food bank in Toronto, which has 80 subsidiaries. There are more food banks than McDonald's and Wendy's put together. This story of the growth of food banks reveals a side of our society that should be included in the discussion of the topics that are discussed here today.

It is fair to say that while Canada has eliminated its fiscal deficit, it has created a massive social deficit. Unemployment has been running at over 9 percent now for 85 consecutive months. Nearly 400,000 young people are unemployed today. I do not think that we can stand by and accept those figures and not do anything significant about them immediately. There is a serious risk of major social economic upheavals in the future when 400,000 young men and women are unemployed at the time in their lives when they should be building their careers, homes, and families.

In 1989, Ed Broadbent moved a motion that by the year 2000 Canada eradicate child poverty. I seconded the motion, which passed unanimously in the House of Commons. Since 1989, we have 538,000 more children living in poverty in this country. There are now 1.5 million of them living in these conditions. I do not know your feelings on this issue but it concerns me very much, knowing about the importance of the first 3 years in the development of children. Psychologists and physicians tell us that the values, the ethics, the fundamentals of a person's character are created in these formative years. Living in

poverty severely limits the future development of these children and prevents them from becoming productive citizens.

We do not have to accept Canadian children living in poverty. There are a number of countries in the world where child poverty does not exist simply because the parents of these children do not live in poverty. So, there are models that we can look to and adopt in Canada.

With respect to income, I learned the other day that over 89 percent of new jobs in Canada are created in the self-employment sector. In this sector, the average income is \$20,000 per year. What does that mean for our capitalist economic system that depends on people having the ability to purchase goods and services when levels of income are so low and disposable income is so limited?

When we discuss the question of the optimal size of government, may I urge us first to spend some time discussing the purpose of government. What do we expect the governments of our country to do? What services do we expect them to provide?

I consider debt reduction to be a major issue facing Canada. Therefore, I was pleased to note that the Finance Committee Report urged the continued application to debt reduction of all surpluses in the contingency reserve of annual budgets.

On a more general topic, I would like to say something which may surprise some people since it is coming from a social democrat. It is crucial that we find new ways and means of expanding wealth creation in Canada. We need to identify strategic investments that will make our economy grow. Finding expanding markets and selling in them is crucial.

I know it is very popular today to talk about the devolution of power. When Quebec asked for, and was given, the right to run its own manpower training programs, this right was granted to all provincial governments. I wonder whether it is necessarily in Canada's best interest to have 10 different systems of training. We now have an explosion in the number of training institutes. In the province of British Columbia there are now over a thousand training institutes, but only a hundred of them are certified. What kind of training are we doing? What are we doing in terms of ensuring some national standard across the country?

In summary, let me say that social democrats in the House of Commons and across the country will insist that we remain vigilant in terms of an efficient and effective government, that we no longer need to visit the old issue of deficits, that we continue to acknowledge the seriousness of debt. But we will also insist that we give some consideration, immediately and in the future, to rewarding those people that really fought and won the deficit war, the students of Canada with the high debt loads, people waiting in lineups in hospitals, the children living in poverty, and particularly those people who are unemployed.

View of the Progressive Conservative Party

THE HONOURABLE JEAN CHAREST

Politics is about teaching and each of us in our roles as politicians should take on that task and responsibility. We should not only put forward positions but also help to advance the public debate. This is true of the issue of the fiscal dividend. Today, most of us would recognize that we were ahead of our time in the 1997 election campaign. We talked about tax cuts, balancing the books, and the importance of reducing the debt. According to an Angus Reid poll (Globe and Mail / Angus Reid, November 1997), Canadians now agree with us on these problems. This confirms that if one is able to communicate and to be persuasive Canadians are ready to listen and change their views on these very important issues.

Let me start with a bit of a cold shower on the theme of this meeting. I disagree with the whole idea that there is a fiscal dividend. There is no fiscal dividend. If the truth be told, the government of Canada now is using the funds in the Employment Insurance Fund for the purpose of paying down the deficit and, by doing so, they are over-taxing Canadian workers and businesses for the purpose of meeting that objective. They are talking about a fiscal dividend of \$12 billion to \$13 billion when no fiscal dividend exists. Nevertheless, I do not

Please note that this speech was delivered by Jean Charest before he became leader of the Liberal Party of Quebec.

argue with the importance of us looking ahead. The fiscal dividend we hope for is on the horizon—is well within our reach—and it is extremely important for us to prepare for that moment so that we make the right choices.

It is interesting how this debate about the use of future surpluses has evolved since I was first elected in 1984. The entire issue of deficits and debts now transcends political ideologies. All levels of governments agree on it and there is a very broad and solid consensus in Canada. That was not always the case. Today we benefit from this consensus to the point where New Democrats in Saskatchewan and Liberals in New Brunswick and even the federal Liberals have all warmed up to the idea that we have to balance our books and start paying down debt.

The main question we now face is what we should do with surplus funds once the budget is balanced. Before we turn to the question of the optimal size of government, we should examine the role of government. Only after we have done the latter, can we link the two questions. I think that it is important that we examine these questions as Canadians, regardless of the choices made by the United States. I urge that we be on guard against importing wholesale political ideologies from other jurisdictions. We must remember that political ideology is not applied in a vacuum but rather in the context of our history and our culture and the choices that we make.

In this respect, if there is one conclusion that I have come to from my experience and travels of the last few years, it is that these deficits, debt, and high taxes run counter to our basic Canadian culture. If there is one conclusion that I have come to from the debates within our party and in spending time with Canadians, it is that we Canadians have always lived in a country where there was ample freedom to reap the rewards of work. Governments at all levels and formed by all political parties over the last few years got badly off track by allowing themselves to get into a spending spiral that created this debt and high taxes. We are now paying the price in terms of a lower standard of living and higher unemployment.

It is always risky to compare the Canadian economy with the American economy. Yet, I think we should ask ourselves why the United States has half the unemployment rate that we have and why its standard of living in the last four years has gone up while ours has gone down? In Canada, we have reduced disposable income and we have more poor children today than in 1993. If it had not been for the Canada-US Free Trade Agreement and the North American Free Trade Agreement, which were adopted during the last Progressive Conservative governments, our economy would have been in a recession.

I believe that these differences in the success of the Canadian and American economies are directly related to higher taxes and higher debt. For this reason, we continue to propose setting out some clear objectives for our fiscal framework. The Conservatives' position continues to be that taxes should be reduced now, immediately. We distinguish ourselves in this respect. We were the only party in the last campaign to take that position.

We have a logical reason for taking this position. As the Fraser Institute and others suggest, there is an optimal size of government that is reached when government spending equals 30 percent of GDP. Spending beyond that point results in negative returns. Since in Canada we have spending in excess of the critical 30 percent of GDP, spending reductions would increase productivity and government revenues. In the light of these facts, we were surprised that in the last election campaign that we were the only party proposing immediate tax reductions, before the books were balanced.

As a priority, cuts in payroll taxes rank very high for us. EI premiums are a tax on jobs—a circumstance which, quite frankly, is scandalous. Moreover, we find it morally objectionable to have a government lecture the people of eastern Canada about the abuse of the Employment Insurance system and then abuse it themselves. We believe that if there will be increases in CPP premiums, they should be matched by reductions in EI premiums so that Canadians do not face even higher taxes. We also believe in a reduction in personal income taxes. We think there should be a very clear target set for our debt-to-GDP ratio; we suggest a ratio of 50 percent by the year 2005.

We also believe that there is a need for a framework for reduced spending, lowering of the debt and deficit, and for tax reductions. We need to explain to Canadians that, if we make these reductions in spending and in the debt, there will be the reward of lower taxes. We called for tax cuts before the budget is balanced. Our position on the fiscal dividend is that one-third, at least, should be applied to debt reduction and the rest to meeting demographic spending needs and further tax cuts. However, the increased spending should be undertaken only within a system that guarantees benefits.

Let me conclude by giving you a reason why it is important that we move ahead with such fiscal plans. Young Canadians with skills for which there is a market anywhere in the world now have choices that Canadians a generation ago did not have. For example, when I graduated from Sherbrooke University in 1981 in law, it was not obvious that I would be able to work somewhere else in the world. But, today Canadian university graduates can take advantage of the new environment of globalization and can readily find jobs in other countries. This fact has

important implications for the future of Canada. Consider that computer science graduates at the University of Waterloo in recent years have been courted successfully by many foreign employers. Microsoft Corporation alone hired one-third of all of these recent graduates.

What causes this brain drain? Graduates are attracted to higher pay and lower taxes. They do not have to stay behind to pay off the debt incurred by their parents. Some people say that such higher after-tax income does not compensate for the outstanding quality of life that we have here in Canada. Well, apparently these graduates do not see it that way: with enough extra income, that quality of life is accessible pretty much anywhere in the world. We must deal with this problem or suffer very serious long-term problems for our great country as young people choose to live and work elsewhere.