METROPOLITAN HALIFAX
CHAMBER OF COMMERCE

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Since 1750.

Submission to the

House of Commons
Standing Committee on Finance

Standing Committee Appearance:
November 15, 1999

Mr. Michael Schmid, CA, Chair, MHCC Federal Finance Sub-Committee
Mr. Ian Tramble, MHCC Federal Finance Sub-Committee

Background

The Metropolitan Halifax Chamber of Commerce is a voluntary, not-for-profit organization that represents business interests and provides vital leadership that benefits Metro Halifax and the Atlantic region. It is a lobby and advocacy group acting on behalf of more than 1,750 corporate and 2,500 individual members, and its chief communications vehicle is the *Business Voice* magazine.

The 1,750 corporate members of the Chamber employ over 50,000 people, representing more than one quarter of Metro Halifax's labour force of 194,000. As the voice of business, the Chamber works on behalf of small businesses and large corporations alike. Seventy-eight per cent of Chamber members are organizations with 25 or fewer employees. The Metropolitan Halifax Chamber of Commerce has the largest membership of any Chamber in the Atlantic provinces and is the largest in the country among mid-sized Canadian cities.

The Chamber consists of a number of key volunteer committees in the areas of Economic Development, Small Business, International Business, Retail, Oil and Gas, Government Affairs, and Transportation. Task Forces and Sub-Committees are established on an issue-driven basis.

Pressure to Spend

Since the last federal budget, pressure on the government has been growing to deliver new program spending and immediate tax relief. In September of this year, the Chamber polled its members to test their support for these types of proposals. The responses to this poll indicate continued support for the Chamber's position that the federal government needs to take a three step process in managing its finances:

1) First we need to control spending and achieve surpluses.

2) With spending under control, we can then bring down the massive federal debt.

3) Having reduced the debt, and freed up money currently being spent on interest payments, we can deliver sustainable reductions in personal taxes that will make a meaningful impact on the national economy.

1) Continued Spending Controls

Canada is still at step one. Over 71% of the respondents to our poll identified spending control as the first or second highest priority item for the federal government to address. As we stated in our response to the 1999 Federal Budget, we believe that any new program spending should come from existing programs that are scaled back or eliminated. We were disappointed with the amount of new spending contained in the 1999 Budget and are gravely concerned that the recent Throne Speech clearly indicated that further spending increases will come with this year's budget.

The government must exercise restraint. We recognize, as Minister Martin pointed out in a letter to the Chamber on September 8, 1999, that certain incremental growth in program spending, based on population growth and the impact of inflation, is beyond the government's control. Our position is focused on new initiatives - if the government believes that money would be better spent in one area they need to reallocate that money from another area which is no longer a priority concern.

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Real, consistent and aggressive spending control strategies will ensure our entry into a new era of fiscal flexibility. The current emphasis, however, must remain on continued reduction in the level of government, and government debt, or we risk missing out on this new era entirely. Measures such as increased contracting to the private sector and further reductions in the duplication of services both within the Federal Government, as well as between different levels of government, should be a priority.

2) Debt Reduction

Our net public debt is $576.8 billion. In 1998-1999, $41.4 billion or 27 cents of every dollar of revenue collected was used to pay the interest on this debt (Economic and Fiscal Update, November 2, 1999). This $41.4 billion was almost double the $22.8 billion spent on elderly benefits in 1998-1999, the next largest single expenditure item in the federal budget, and the $41.4 billion is growing - even with our strong fiscal performance in recent years Statistics Canada reports that our debt charges rose in 1998-1999 by 1.5% or $657 million (CANSIM, Matrix 3315).

We need to keep our eye on the ball - even if we were able to maintain the current level of surplus for the foreseeable future and took 50% of those surpluses each year to reduce the debt it would take us over 60 years to pay off the $576.8 billion we currently owe (based on $46.5 billion every five years or 50% of the $93 billion projected to be accumulated between 2000 and 2005). Even worse, if the government was only able to maintain the current trend of $3 billion paid against the principle of the debt in every fiscal year it will take almost **two full centuries for Canada to become debt free.**

The federal government must make real gains in limiting the growth of expenditures so that Canada can move to step two and begin to substantially reduce our national debt. Debt reduction was cited by 60% of respondents to our poll as a leading priority (first or second). This focus on debt reduction is a consistent theme among our members and indicates that it is still not the time for the government to move away from a strategy of fiscal prudence and financial responsibility.

In his September letter, Minister Martin points to the contingency fund, and its conditional availability for debt repayment, as the "Debt Repayment Plan". In our view, a contingent commitment to debt reduction is insufficient given the size of the debt problem we face. While we applaud and encourage the fiscally prudent act of budgeting a contingency reserve to balance unexpected fiscal events, we feel the allocation of the unused portion of the reserve for debt reduction should be done as an addition to a fixed debt repayment figure included in every annual budget.

The government's debt reduction strategy should stipulate specific, rather than contingent, debt reduction amounts combined with specific debt reduction targets. Accepting that the government has made some progress in reducing the debt to GDP ratio, we feel the goals set out to date are not specific enough nor are they aggressive enough.

We feel that an aggressive debt reduction strategy, if implemented now, would allow the federal government to address the balance of our members concerns in the future. Lower debt means lower debt service costs - reduced debt service costs mean more money is available for debt reduction, tax decreases, education and health expenditures and, investment in needed Infrastructure.

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3) Tax Cuts and Infrastructure Investment

Only after the government has made a real effort to limit growth in federal spending and removed the restriction this growth places on our ability to seriously reduce our national debt will Canada be in a position to realistically move to step three in managing our national finances. Assuming the government can implement better spending controls and a continued focus on meaningful debt reduction, our members recognize that the government will need to take additional actions to place our economy in a strong competitive position for the future.

Of the respondents to our poll, 76% felt that, assuming the government were to move forward and cut taxes, the priority had to be a cut in personal taxes. An increase in the small business exemption and the elimination of the high income surtax were a distant second and third to personal tax cuts.

Over the long term, 76% of our poll respondents also felt that only a tax cut resulting in a saving of more than a $1,000 per family would have a significant impact on the economy. In order to achieve this level of tax relief, real inroads must be made into federal spending and the national debt. Meaningful and sustainable tax cuts can only be achieved if the government controls new spending and makes a concerted effort to aggressively reduce the national debt.

A similar 76% of respondents felt that, assuming the government elected to move forward and invest in the country's social infrastructure, the priority should be an increase in the health transfer to the provinces. Investment in education to support lower tuitions, and increased support to low income earners were the second and third highest priorities.

These results indicate that our members remain committed to spending control and debt reduction as the primary method of securing a better economic future and, accept that the government may feel the need to reallocate existing federal spending towards targeted tax relief for individual Canadians and increased spending on the national health care system and other key pieces of national infrastructure.

Unacceptable Employment Insurance Surplus

According to Human Resources Development Canada, "Employment Insurance (EI) is a social program that contributes to the security of all Canadians by providing assistance to workers who lose their jobs and helping unemployed people across the country to get back to work" (HRDC web suite, November 4, 1999). Nowhere in this definition does it indicate that EI premiums are a tax on employers and employees which is intended to fund the social goals of the federal government.

The continued build up of a massive EI surplus which is then used to fund general program spending is unacceptable and undermines the intent and integrity of the EI system. The Chamber continues to believe that the surplus in the Employment Insurance (EI) account should be capped, and that EI Premiums should be reduced in order to promote job growth. The Auditor General along with the government's own EI actuary have stated that a surplus of from $10 to $15 Billion would be sufficient to ride out a severe recession and the fund surplus should be capped at that level.

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Our members recognize that the government has made a series of small cuts to EI premiums. We would point out, however, that the EI surplus continues to grow at an alarming rate and other payroll deductions, such as the CPP contribution, continue to rise - effectively eliminating any projected savings for employees and employers.

We are gravely concerned about the trend towards using the EI surplus to support new program spending. Our members have told us that the priorities for the federal government must be spending control, debt reduction and tax cuts. They do not support new program expenditure at this time.

The EI fund is money that belongs to the employers and employees who have paid into the fund as an insurance policy designed to support workers in transition. It should not be treated as general revenue by the government. Certainly, if the government were facing a deficit in the EI account they would quickly turn to employers and employees to make up the current or projected loss through increased premiums.

It is the current employers and employees who have been overcharged, and it is they who should benefit from the present surplus. It is our view that this could most efficiently be done through an immediate reduction in EI premiums to a level recommended by the actuary responsible for the EI plan. Such a reduction would have real and immediate benefits for small and medium sized businesses across Canada. It is these companies, and their employees, who are the source of the EI surplus and it is only fair that they benefit from the surplus through decreased EI premiums.

By putting their own money back into the hands of working consumers and small business people the government would be strengthening two key drivers of economic growth. Only through real, sustained economic growth will we be able to bring taxes down and address, over the long term, Canada's health, education and infrastructure needs.

Conclusion

Our members have indicated that for Canadians to take advantage of the opportunities offered by the new millennium the government must promote a climate and attitude of self sufficiency at the individual level. Government, business and citizens must be responsible for their own well being. Government needs to reduce its dependance on borrowed funds, business must achieve economic viability without government subsidies and, individuals must expand their ability to take advantage of new opportunities as they arise.

Education, job skills development, and personal productivity are the keys to this climate of personal responsibility. Canada's health and education systems must be designed to achieve and promote these ends. Government and business should continue to invest in a healthy, multi-skilled, and flexible workforce for the future.

The Chamber continues to oppose the use of grants or subsidies to business when making these strategic investments. Personal tax decreases, funded by reductions in government and government debt, and the resulting increase in disposable income would have a stronger and more lasting effect on economic growth and business performance.

For more information on the positions of the Metropolitan Halifax Chamber of Commerce, please contact Nancy Conrad, Policy Manager at (902) 468-7111.