HALIFAX CHAMBER OF COMMERCE

2006 Federal Budget Input

Halifax Chamber of Commerce Federal Affairs Committee

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BACKGROUND

The Halifax Chamber of Commerce is a best practice business organization that continuously strives to make HRM an even more attractive location in which to live, work and play. The 1700 Chamber Members employ approximately 75,000 people in HRM - over one quarter of Metro-Halifax's labour force. It is the first North American Chamber to be certified to the ISO 9001:2000 International Standard of Quality, and it is the oldest Chamber on the continent, with roots dating to 1750. The policy and advocacy work of the Chamber is driven by the efforts of volunteers from committees and task forces consisting of more than 350 leaders from the business community.

PRIORITY ISSUES

The Halifax Chamber of Commerce continues to support three key priorities for fiscal management at the federal level. In order of priority, they are:

- Fiscal restraint;
- Debt reduction; and
- Tax reduction.

FISCAL RESTRAINT

Canada has experienced a strong period of economic growth over the past decade and this growth continues. Furthermore, this growth is expected to continue with real GDP expected to grow in the range of 3% over the next number of years.[1] Some significant credit for that growth lies with the decision made by past governments to put its fiscal house in order in the 1990s after years of multi-billion dollar deficits and the arrested growth of, and significant payments against, Canada's massive debt.

That said, the federal government's program spending increases in recent years have not only outpaced the rate of growth in the economy, they have put at risk the benefits we collectively achieved through fiscal belt-tightening. The Chamber strongly believes that program spending must be kept in check. Indeed, fiscal restraint will only become more important as an aging population puts increasing pressure on social spending and fewer Canadians, on a percentage basis, will be working and contributing to tax revenues.[2] According to Statistics Canada the working-age population currently represents 70% of the total population and by the beginning of the 2030s, this will decline to 62% eventually leveling off at approximately 60%.

While some incremental spending is unavoidable based on population growth and inflation, the Chamber urges the government

[1] See for example, Canada Provincial Outlook, BMO Financial Group – Economic Research and Analysis. Released: December 29, 2005.

[2] Statistics Canada, The Daily, Thursday, December 15, 2005. Accessed on-line at: http://www.statcan.ca/Daily/English/051215/td051215.htm

to, wherever possible, re-allocate existing funding to support any new program spending. This means the government must determine priority areas and exercise restraint. From the Chamber's perspective, well managed and strategically appropriate investments in areas like healthcare, education and infrastructure can play an important role in boosting productivity and fostering economic growth.

In particular, programs such as the urban transportation showcase program, that alleviate the infrastructure deficits faced by Canadian cities, while also promoting sustainable transportation contribute to a better business climate.

Another major improvement to Canada's business climate would be the elimination of airport rents. Airports are not assets that the federal government should use to generate maximum revenues. They are important infrastructure, critical to the government's responsibility to maintain a national transportation system. At the Halifax International Airport, the HIAA has spent $60 million on capital in the last three years; more than was spent by the federal government here in the previous ten years. These investments are being made, at no cost to the taxpayer, in assets that continue to be owned by the federal government. Current and future rent requirements interfere with HIAA's ability to continue to make Halifax an attractive place to do business and visit.

Overall spending increases must be minimized and government must return to the path of fiscal restraint from which it strayed.

DEBT REDUCTION

We encourage the current government to continue to the solid work of previous governments in reducing the debt to GDP ratio. The government must develop a plan for targeted, aggressive and regular debt reduction. We support the Canadian Chamber of Commerce position on debt reduction that calls on the federal government to:

- bring down the debt to GDP ratio to below 25% by 2013.
- continue to allocate the contingency fund, if not needed to cushion against unpredictable events, to debt reduction.
- if the economy performs as forecast, the reserve for economic prudence should also be committed to debt reduction.
- Allocate any unanticipated surplus arising at year-end to debt reduction.

Lowering the debt, and therefore the annual cost of servicing the debt, will free additional funding for priority program spending and targeted tax reduction. It is vital to our economic well-being and increasing the country's productivity.

TAX RELIEF

High levels of individual and business taxation are stifling economic growth and productivity in Canada. Multi-billion dollar annual surpluses, and overly high spending increases, are indicative of unnecessarily high levels of taxation. Reducing the tax burden will make Canada more competitive and productive. For individuals, tax relief will spur both greater investment and saving. Tax relief at the corporate level will increase economic activity and boost overall productivity. The Chamber supports the raising of the small business deduction limit to $400,000. The Chamber considers corporate tax relief – particularly tax rates on capital to be an excellent means by which the government can spur private sector productivity.

The Chamber notes, however, that tax relief must take a back-seat to, and is a benefit of, fiscal restraint and debt reduction. Any tax relief must be sustainable and responsible in context of the broader fiscal picture. Limiting program spending is first priority, reducing the debt is second, and reducing taxes is third.

ADDITIONAL ISSUES

GAS PRICES

Regarding the recent furor over escalating gas prices, the Chamber urges the government to resist the temptation to interfere in free markets and waste taxpayers' money on any form of bureaucracy to further monitor or regulate the oil and gas industry. The Competition Bureau has the tools it needs to ensure prices are set via competition, not collusion, and has repeatedly reviewed the industry to ensure its competitors are behaving within the law. No additional government oversight is needed.

EQUALIZATION

We encourage the government to keep in mind the following principles when considering both the equalization formula itself and future budgets:

1. The Offshore Accord is a bilateral agreement with the Federal government and is not part of Federal Equalization.

2. Equalization needs to take into account a needs-based assessment, not just revenues.

3. Equalization should create incentives for economic growth and prudent fiscal management/debt reduction. Equalization should not create disincentives for economic growth.

4. Equalization needs to be based on a fair, objective provincial average.

Conclusion

We urge the government of Canada to exercise increased fiscal restraint, develop a meaningful debt reduction strategy and examine opportunities to reduce the personal and corporate tax burden on Canadians.

Chamber Advocacy Work

More information about the Chamber and its advocacy work can be accessed by contacting the office or visiting the Chamber web site:

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Addendum – April 2006

Halifax Chamber of Commerce
Federal Pre-Budget Submission

The Chamber appreciates the move by the government towards tax relief for Canadians – perennial large surpluses indicate higher than necessary taxes.

However, we urge the government to consider the following in relation to a GST cut:

- Costs to business of updating cash registers, billing systems, automated payments, invoices, accounting software etc.,
- The lower economic costs of levying taxes by means of a consumption based tax, such as the GST, versus the economic costs of capital income taxes (both individual and corporate),[3]
- The relative effectiveness of other types of tax reduction, such as reductions on capital taxes, corporate income taxes and taxes on investment, as a means of promoting efficiency and growth.[4]

We also urge you to ensure the full costs to the government of such a cut are considered. While lowering the GST will put downward pressure on the CPI, and therefore lowering some costs for the government, there are reports that the cost of a GST cut are underestimated by as much as $500 million per percentage point.[5] The Chamber firmly believes that any tax relief must be sustainable and responsible in context of the broader fiscal picture.

[3] "Tax Design for a Northern Tiger," Choices, Vol.10, no.1, March 2004. www.irpp.org

[4] Ibid.

[5] "Peering Into the Conservative's Fiscal Plan", TD Economics Special Report, February 28, 2006. www.td.com/economics