Submission to Standing Committee on Finance

November 9, 2004

Halifax, NS

Submitted by:
Valerie Payn, President
Allan Gates, Chair, Federal Affairs Committee

HALIFAX CHAMBER OF COMMERCE

Background

The Halifax Chamber of Commerce is a best-practice business advocacy organization that continosly strives to make Halifax an even more attractive city in which to live, work and play. The almost 2,000 Chamber members employ more than 90,000 people, representing over half of Metro Halifax's labour force. 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: fiscal restraint, debt reduction and tax reduction. We believe the federal government must embrace these priorities.

Fiscal Restraint

Canada has experienced a strong period of growth over the past decade and this growth continues. The economy is expected to grow by 3% in 2004 and 3½% in 2005. Some significant credit for that growth lies with the decision made by the federal government to put its fiscal house in order after years of multi-billion dollar deficits. It also arrested the growth of and made relatively modest payments against Canada's massive debt.

This said, in recent years, federal government program spending has outpaced the rate of growth in the economy. By Fiscal Year 1999-2000, federal government program spending stood at $109.6 billion. Since then, program spending has increased substantially each year. For Fiscal Year 2003-2004, program spending is estimated to total $141.4 billion. (Source: Finance Canada, Fiscal Reference Tables.) The Chamber strongly believes that program spending must be kept in check.

Ensuring appropriate levels of program spending will become increasingly important given expected demographic shifts. Currently, approximately 13% of Canadians are 65 years of age or older; by 2026 Statistics Canada projections estimate this percentage at over 20. (Source: Stastics Canada, CANSIM, table 052-0001.) This demographic shift represents significantly increasing pressures on the current system of taxation and social support over the next several decades.

While some incremental spending is unavoidable based on population growth and inflation, the Chamber urges the government to, wherever possible, re-allocate funding from the existing envelope 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.

The Chamber acknowledges that determining priority areas is a challenge. There are many issues and causes worthy of federal support. Governing well means making choices that may sometimes be difficult or politically unpalatable. The Chamber strongly believes that efforts should be made to reallocate resources from existing spending to new priority areas. If the government believes that money would be better spent in one area, then it must reallocate that money from another area that is no longer a priority. Meaningful spending control strategies are vital to achieve the needed fiscal flexibility.

Debt Reduction

The Chamber commends the government for effectively reducing the debt to GDP ratio. With Canada expected to have the lowest debt to GDP ratio among OECD countries in 2004, the country is on the right track financially. We encourage you to build on this success to continue to reduce our debt that still stands at over $510 billion.

Government must take steps to develop a plan for targeted, aggressive and regular debt reduction. This should include specific debt reduction amounts as well as debt reduction targets. It should be noted that any taxation revenue gathered beyond these amounts required for prescribed program spending and debt reduction should be considered over-taxation. This said, in the event of a budget surplus, the Chamber supports applying surplus to debt reduction.

Canada has not yet solved its national debt problem. Lowering the debt and therefore the annual cost of servicing the debt will free additional funding for appropriate program spending and targeted tax reduction.
While the federal government has arrested the growth of the debt and made some payments against it, Canada still lacks a clearly defined debt reduction plan. Any budget surplus is subject to the whims of the government of the day and will not necessarily be applied to the debt. This lack of a formal debt reduction strategy is not appropriate public policy.

Tax Relief

High levels of individual and business taxation are stifling economic growth in Canada. A $9.1 billion dollar surplus is indicative of unnecessarily high levels of taxation. Reducing the tax burden will make Canada's economy more competitive. For individuals, tax relief will spur both greater investment and saving. Tax relief at the corporate level will increase economic activity as well as boost overall productivity.

The Chamber notes, however, that tax relief is only possible assuming a continued government emphasis on fiscal restraint and debt reduction. Any tax relief must be sustainable and that comes from the control of new spending and a concerted effort to reduce the national debt. While the Chamber supports the federal government's recent tax reduction efforts, we urge the government to consider tax cuts only in the context of the broader fiscal picture.

The Halifax Chamber of Commerce supports the positions taken by the Canadian Chamber of Commerce with regard to the appropriate approach to targeted tax reduction. In particular, we believe there is merit in reducing taxes for low and modest income earners – particularly families earning between $25,000 and $35,000 annually. As the Canadian Chamber noted: "Middle- and low-income Canadians need a tax break because many see their tax credits and other transfers clawed back as their income rises." This situation is unfair and must be addressed.

Other Issues

As the capital of Nova Scotia, we feel a strong Halifax is a benefit to the whole province. While Halifax represents about one-third of Nova Scotia's population, it is home to half of the province's jobs. The Halifax Regional Municipality needs to maintain capital infrastructure if it is to be a sustainable community. Canadian Mayors have asked the federal government to share a portion of the fuel tax revenues to help fund municipal capital infrastructure requirements. The Chamber encourages the federal government to follow through with its commitment to create a new deal for Canadian cities.

Conclusion

Canada remains in a strong economic position. This is the time to address problems created in the past and take the proactive steps needed to ensure Canada remains economically competitive in the global marketplace and that Canadians enjoy the opportunities and quality of life that make our nation the envy of the world. We call on the government of Canada to control program spending, develop a meaningful debt reduction strategy and examine opportunities to reduce the tax burden on Canadians.