



**British Columbia Chamber of Commerce Submission on the
Pre-Budget Consultations for Budget 2006 and Beyond.**

Canada's Place in a Competitive World

The British Columbia Chamber of Commerce (The Chamber) is a volunteer, not for profit association, which serves its members as the provincial federation of autonomous community chambers of commerce/boards of trade and corporate members.

The Chamber is the widest and broadest based business organization in the province. Representing the views of more than 130 chambers of commerce and boards of trade and over 31,000 businesses from every size, sector and region of the province The Chamber is "The Voice of BC Business."

Known to be in operation as early as March 1867, The Chamber was re-established in 1951 with a mandate to develop a true cross section of opinions of the British Columbia business community, present members' opinions to the provincial and federal governments, promote trade, commerce and improve the economic and human well being of the people of British Columbia

The recommendations contained in this submission derive from The Chamber's policy development process that is unparalleled in its ability to generate innovative policy solutions through local, evidence-based, analysis. This analysis is based on information and judgments about the needs of communities across the province reflecting the values of influential stakeholders and community members.

Given our mandate – to advocate a policy framework that promotes a healthy and vibrant economy in which all British Columbians can grow and prosper – we are very pleased to be able to make this submission to the Select Standing Committee on Finance regarding the priorities for our members for Budget 2007.

Context

The context within which the Chamber makes this submission is one of a strong Canadian economy that has provided the government with a situation of almost structural surpluses. The Chamber believes that this situation provides the government with significant latitude to undertake the necessary investment in our future to build a foundation for generational growth for all of Canada.

In preparation for Budget 2007 the Chamber urges the federal government to make enhancing productivity the cornerstone of its deliberations. While productivity is a wide ranging concept covering taxation, business environment, infrastructure, education and training to name a few the essence of governments role in enhancing productivity is to provide a framework within which business can invest in the future of their company and their employees.

In order to maintain and enhance competitiveness a greater focus on productivity across all sectors of the economy, all regions of the province and all size of business is essential. Only through maintaining and repeatedly renewing our strong enterprise base can we build a foundation for sustainable growth.

BC is not alone in facing a productivity shortfall, the problem is being felt across Canada. In 2002, Canadian productivity was about 17% below that of the United States. This gap was large enough to explain entirely why the standard of living of Canadians in 2002 (measured in terms of real GDP per capita) was 15.4% below that of our American counterparts. This translated into an annual income gap of C\$6,287 per capita (at purchasing power parity)¹.

Addressing these challenges is critical at this point in time. Higher interest rates, a slowdown in the US, a stronger Canadian dollar impacting the economy, ongoing trade issues particularly with our largest trading partner the United States, and strong global competitive pressures are all risks to the Canadian economy that make the need for fiscal prudence critical to our future. At the same time, there remains continued pressure for substantial increases in domestic spending such as healthcare, education, the military and infrastructure. It is therefore essential that the Government of Canada set definite and attainable targets with respect to personal and corporate taxation levels, national debt reduction and spending levels.

The nature of the current transformation occurring in the global economy will have profound implications for BC. The growing economic strength and vitality of Asian economies, particularly India and China, is presenting a seismic shift in global economic geography that presents both new opportunities and new challenges for BC and for Canada. It is our ability to be competitive that will determine whether these changes become opportunities or challenges.

The following submission lays out a comprehensive plan to address the challenges facing the Canadian economy addressing the critical elements of the labour shortage, taxation, infrastructure, and fiscal policy.

¹ The Canadian Chamber of Commerce policy statement - Innovation and Rate of Growth in Productivity in Canada,

Skills Shortage and the Coming Demographic Timebomb

The fact that we are experiencing a skills shortage is a now widely accepted reality. What is not so well acknowledged is that this issue is being significantly exacerbated by the coming “demographic timebomb.” In short we are facing a perfect storm of a labour shortage feeding an existing skills shortage.

Chambers welcomed the action taken in Budget 2006 to enhance businesses ability to train their workers. Indeed, the Chamber believes these measures will prove so successful that it is critical that the government institute a mechanism to review these programs on an ongoing basis to assess their effectiveness and enhance the programs where appropriate.

While these measures are welcome there is more that needs to be done. The Chamber feels that the current situation requires a coordinated response from all stakeholders that focuses on a critical question; how do we increase the number of workers in the economy?

Increase the number of workers in the economy

While the Chamber largely agrees with the CD Howe Institute² that increased immigration alone is not the panacea to our looming labour shortage, it must be stated that short of a major increase in the productivity of our workers, a proactive immigration program presents the single most potent tool to address the need for significant levels of new workers.

The numbers speak for themselves as to the need for skilled labour injection into Canada to maintain a competitive business climate. With the advent of baby boomers starting to retire, there will be a net increase in need of positions in both the white and blue collar sectors. In BC alone we will see province’s labour force participation rate fall from 72.8% to 67.3% by 2015. Perhaps more worrying still is that this shift will occur as the province creates 1,000,000 new jobs over the next 12 years, with only 650,000 students in B.C. finishing grade 12 during this time frame.

It is essential that Canada have a proactive immigration policy, that is not only able to compete with other jurisdictions but also must give potential immigrants assurance that their applications will be processed in an efficient manner within a reasonable and predictable period of time. Otherwise, they will look to other countries.

The provincial and federal level of government must take a coordinated approach to addressing this critical issue. Areas the Chamber believe must be immediately addressed are further increases to the capacity of the provincial nominee program to provide the ability to increase capacity to attract new immigrants in all classes, the immediate creation of the national foreign credential centre, the need to provide education overseas to better prepare immigrants for integration into Canada, the introduction of a flexible two-year Working Holiday Visa Program, and a shift of resources away from processing family class immigrants to cut the wait time for skilled and economic immigrants from its current 18-24 months.

Quite simply without action in these areas the current immigration system is not capable of attracting the ready-to-work immigrants with the required skills base to B.C. in a timely manner.

² **No Elixir of Youth: Immigration Cannot Keep Canada Young**, CD Howe Institute.
<http://www.cdhowe.org/index.cfm>

There are also significant advantages to be derived from improvements to the application process itself. Immigration services abroad are provided through a network of approximately 80 offices in Canadian Embassies, High Commissions and Consulates. The visa offices may process applications differently depending on the application and the visa office. The length of time it takes to process an application can also be different in each mission or visa office. The reality is that we resource visa offices in different countries to varying extents, the effect of which is to slow down immigration from some countries while speeding up immigration from others. Approximately 50% of cases emanating from Africa and Asia are processed in thirty-three months, while it takes twelve months from Europe and twenty-one months from the Western Hemisphere. In some cases, the wait can be up to five years or more, depending on the location.

The massive backlog of unprocessed visa applications has rendered the federal system sclerotic. Estimated at up to 120,000 in 2003, and not getting any smaller, this backlog is responsible for the lengthy wait times at the various overseas offices. Such delays have created an unofficial quota system by discouraging residents in certain countries from applying to Canada.

THE CHAMBER RECOMMENDS

That the Federal Government;

1. overhaul the permanent immigrant system by reviewing the point level required and by restructuring the allocation of points to emphasize the skills required by the economy;
2. Immediately allocate the necessary resources in offices abroad to process immigration applications more efficiently and effectively.
3. enhance the overall training strategy to ensure that visa officers receive sufficient and appropriate training and have the necessary tools and means to assess immigration applications more effectively and efficiently
4. immediately create the National Centre for Credential Recognition to ensure immigrants can fully utilize their skills;
5. provide education overseas to better prepare immigrants for integration into Canada;
6. shift resources away from processing family class immigrants to cut the wait time for skilled and economic immigrants from its current 18-24 months;
7. amend the Working Holiday Visa Program to ensure that successful applicants are provided the ability to work in BC for no less than 2 years
8. review the connection between HRDC, Immigration Canada and firms desiring a specific skill and seeking to hire an immigrant due to lack of local talent to ensure the process is driven by a true reflection of supply and demand rather than process driven.

Putting in Place A More Competitive Tax System

In recent years, the federal government (both the Liberals and the Conservatives) have taken welcome steps to reduce personal and corporate income tax rates and to eliminate capital taxes and the corporate surtax. However, much more needs to be done. Canada requires a competitive tax system that encourages work effort, saving, investment and risk taking, thereby, enhancing economic growth on a sustainable, long-term basis. Moreover, our tax system must be competitive to that of the United States in light of the large trade flows and the mobility of capital and labour between the two countries.

This would necessitate implementing all announced tax reductions and initiatives as expeditiously as fiscal conditions permit. It would also include strengthening Canada's competitive advantage in tax administration by improving and simplifying inter-provincial cooperation of the tax system.

With this in mind the Chamber believes that two areas require immediate attention.

Personal Income Taxes

High marginal tax rates on individuals remain a barrier to growth. The marginal tax rate is the tax that is imposed on the next unit of economic activity. As such, marginal taxes greatly influence economic decisions – they govern the choice between working more, or taking more leisure and between consuming more or saving more.

Similarly, more needs to be done in terms of providing tax relief for low- and modest income earners, especially families earning between \$25,000 and \$45,000 annually. For these families high marginal tax rates discourage work effort because many of the public transfers they receive (including child tax benefits, the GST and provincial sales tax credits, provincial property tax credits, student financial assistance and social welfare) end up being clawed back as income rises. Indeed, for many low- and modest-income families, the effective marginal tax rate (after factoring in income-tested benefits) is higher than 60% and higher than the rate facing Canada's top income earners. This sends a strong negative message about the merits of working, saving, and upgrading one's skills.

Business Taxation

For corporations, profits earned are very sensitive to tax rates since they can easily be shifted among countries. In Canada, the average general corporate income tax rate is 34.3%. This includes federal tax of 22.12% (including the federal surtax of 1.12%) plus provincial/territorial tax. In the US, the combined federal/state effective corporate income tax rate averages 39.5% (the federal-only rate is 35%; state and local corporate income tax rates average about 4.5%).

Despite the fact that the average general corporate income tax rate in Canada is, at present, lower than that of the United States, this is not a time for complacency. The general corporate income tax rate is just one of many taxes that are levied on businesses in Canada. The majority of the provinces and the federal government levy a corporate capital tax and five Canadian provinces levy sales taxes on businesses inputs which affect the after-tax rate of return on capital investments. Canada has the second highest effective tax rate (which incorporates corporate income taxes, capital taxes, and sales taxes on capital inputs) on capital investments among 36 industrial and leading developing economies.

High effective tax rates on capital impede capital investment and job-creating foreign direct investment. They reduce the amount of capital equipment available for workers to use and, therefore, impede worker productivity.

The federal government must make a concerted effort to reduce corporate income tax rates in order to reduce high marginal effective tax rates on capital. In Budget 2006, the government repeated the commitment to reduce the general corporate income tax rate from 21% to 19% between 2008 and 2010. The Chamber believes the implementation period is quite lengthy. The Chamber recommends that the federal government reduce the general corporate income tax rate to 20% for 2007 and reduce it by one percentage point in each of the following three years.

THE CHAMBER RECOMMENDS

That the federal government allocate most of the planning surplus to tax reduction to make Canada more competitive internationally by;

1. Further reduce personal income tax rates across all income tax brackets, but particularly for low- and modest-income families because they face the highest marginal rates of all as a result of clawbacks of multiple benefits. Begin by reducing the lowest personal income tax rate to 15% in 2007.
2. Increase the Basic Personal Amount to above \$9,000 in 2007.
3. Raise the threshold at which the top marginal personal income tax rate kicks in to \$150,000 in 2007 and to \$200,000 as fiscal conditions permit.
4. Reduce the general corporate income tax rate to 20% for 2007 and reduce it by one percentage point in each of the following three years.

Measure of Overall Tax Burden

While there is only one taxpayer this taxpayer is unclear regarding the total tax bill they pay to all the taxing levels of government. In addition to income taxes to federal and provincial governments and property taxes municipally, most provinces have a provincial sales tax and there is the GST. There is also a host of other taxes including profit taxes, health, social security and employment taxes, import duties, license fees, taxes on the consumption of alcohol and tobacco ('sin' taxes), natural resource fees, fuel taxes, hospital taxes, and other levies.

There would be exceptional value in understanding the tax burden on the tax payer (Overall Tax Burden). If the overall tax burden were understood, the effectiveness of tax measures and programs could be measured by changes in the overall tax burden. A further benefit would be to allow government to understand their role in creating a competitive system.

THE CHAMBER RECOMMENDS

That the federal government:

1. In cooperation with provincial, territorial and municipal governments, raise the profile of an index of "Overall Tax Burden" so that Canadians taxpayers are more aware of their fiscal contribution and they can consider what they receive in return.
2. Publish provincial, territorial and municipal statistics on overall taxation
3. Make it a national goal to decrease the Overall Tax Burden on individuals and corporations.

Transportation Infrastructure

Canada's social and economic development has always been achieved in tandem with its transportation system. As we look to grow as a province and as a country our ability to compete on the global stage will depend upon this intrinsic link but will now focus on the dominant economic opportunity of the 21st century, Asia Pacific.

As the country looks to grow, our success will be based on the ability of our transportation infrastructure to effectively and efficiently move people, but more importantly, goods around the region and the province. Indeed as an open, trading province BC will play a critical role in the future prosperity of Canada.

The ability to embrace the geographic advantage BC presents to Canada will be dependent on the establishment of long-term integrated provincial and national transportation strategies. These strategies must recognise the inter-relationships and inter-dependencies which exist between all modes of transportation and their attendant infrastructures: airlines, highways (and the concomitant bus lines and trucking systems), pipelines, railways, urban transportation (including both passengers and freight handling systems), and coastal shipping (including ferry systems).

It is only through the enhancement of all modes will we truly be in a position to be Canada's Gateway to Asia Pacific. If the federal government embraces this concept it will allow all modes to have an equal opportunity to find their most effective role in the over-all system. Historically, we have tended to concentrate on one mode as the principal means of achieving government policy. This, in turn, has tended to exclude or at least retard other forms of transportation which have played and can play an important role in our economic and social development.

All levels of government have recognized the opportunity presented by the rapid rise in Asian economies, particularly India and China, and the role BC must play as a gateway to these markets if we are to fully realize these opportunities. China alone is responsible for 60% of the growth in world trade and is a major driving force for trade expansion. When the trade opportunities of other Asian Pacific markets are taken into account it becomes clear that Canada's prosperity depends upon BC's role, as its only pacific province, to provide access to and from the worlds fastest growing region.

THE CHAMBER RECOMMENDS

That the federal government work with the provinces and territories to develop a visionary transportation strategy for Canada that links all modes and has the Gateway Strategy as a central pillar.

Ports

Canada's ports are vital to the economic prosperity of every region of the country. Marine transportation contributes in excess of \$175 billion annually to the economy and represents over \$51 billion in exports. Marine transport is the most used form of transportation to move goods between non-US countries, representing 70% of exports and 40% of imports by value.

The importance of BC's port system as a gateway becomes clear when we realize that BC ports are responsible for half Canada's maritime exports and 85% of the western provinces. In short Canada's ability to grow international trade markets depends on BC's port system. However, existing west coast port facilities are severely limited in their ability to expand. The current congestion on highway and rail lines is economically impacting delivery times and cost, significantly impacting our competitiveness.

There are three deep-sea port locations in British Columbia connected to the continental highway and rail grid: the lower mainland, Prince Rupert and Kitimat. Today Kitimat has three privately owned terminals used strictly for the owners' specific operations but, uniquely in the province, there is foreshore land in Kitimat that has been identified as available and developable for a deep water break bulk facility.

Indeed, the BC Port Strategy indicates that the increase in resource exports that require break bulk facilities see somewhere in the region of 55%. While much of this increase will be generated from projects that would find shipping to the ports of Vancouver prohibitive in terms of time and cost the only port facility with any excess capacity for break bulk exports are Vancouver and Fraser ports.

Expanding any infrastructure piece that creates another gateway to global markets especially in the Pacific will attract investments that would never have been contemplated by organizations like the port of Vancouver. Kitimat's deep sea port sites are a strategic national asset and must be developed.

The importance of this initiative was recognized by the BC government recently when it announced \$200,000 towards a \$774,000 study intended to look at benefits and feasibility of establishing a break-bulk facility in Kitimat. The study will outline markets, determine long-term prospects, identify revenue sources and examine the capital investment needs.

THE CHAMBER RECOMMENDS

That the federal government;

1. Dedicate transportation infrastructure funds in order to reduce congestion at the access points to Canadian ports;
2. Provide an environment of regulatory certainty so that rail companies may proceed in undertaking the necessary investments in infrastructure to improve access at Canadian ports;
3. Amend the Canada Marine Act to allow Canadian Port Authorities to access capital markets without the constraints of Treasury Board;
4. Re-examine the gross revenue charges paid by Canadian Port Authorities to ensure that the charges are not unduly burdened ports or adversely affecting their competitive position with the US;
5. as part of the Pacific Gateway Strategy, and in partnership with the province of British Columbia, immediately assign appropriate resources to assist in the development of a Common Carrier Port Facility in Kitimat for the movement of break bulk products.

Air

BC is strategically located as the ideal gateway connecting Canada to the Asia-Pacific region, the US, Europe and Latin America. However our ability to utilize this advantage is severely hampered by Canada's current air policies which continue to focus on the interests of air carriers rather than on opening our skies to allow airports to play their rightful role as economic drivers for the communities they serve. As it was recently put by DrDavid Pang, CEO of the Hong Kong Airport Authority, *"the market is no longer defined by distance, but by accessibility."*

As we look to the future of the air industry and the role the industry will play in our future economic prosperity it is becoming increasingly evident that the future no longer lies with restrictive bilateral agreements between governments but actually lies in far more liberal multilateral agreements between groups of countries. This should not be something for Canadians to fear, in fact this is a concept that should be natural to Canadians. As a country Canada is more open in terms of trade than most others yet aviation has not followed this trend and we currently find ourselves falling further and further behind in an sector where we have a considerable competitive advantage given the fact that we are ideally situated geographically.

It seems clear that the approach to international aviation taken to date has failed and there is a new consensus developing on how to move forward. There are new markets and new sources for growth in a truly liberal aviation environment if policy makers begin to approach the issue with the primary focus being the importance of the airports and the businesses they serve rather than on an outdated, protectionist focus on protecting routes and services for national carriers.

Further to the future of air agreements and just as important, is the future of small and regional airports and the role they can play in the economic viability of communities.

Small airports are vital to the economic vitality of the province and to communities across Canada. A healthy system of small airports increases the mobility of people and goods outside

major centres, gives business opportunities to smaller air carriers and plays a key role in providing strong transportation infrastructure. With this in mind government has a critical role to play providing support of the infrastructure critical to small airports along with support for the delivery of public safety.

THE CHAMBER RECOMMENDS

That the Federal Government:

1. have open skies as the basis for all air agreements, as has been signed with the US;
2. ask for a seat in negotiations between the EU and the US on a transatlantic common aviation area;
3. pursue liberalization with other jurisdictions on a multilateral basis and remove any requirement for reciprocity from these negotiations;
4. remove the foreign ownership limits for Canadian carriers; and
5. work with the provincial government to establish an adequate and predictable ACAP to ensure that small airports are able to plan and invest in the essential safety related capital projects vital for continued operation

Road

The movement of commercial traffic across the Lower Mainland of BC is impeded by the seriously inadequate transportation infrastructure currently in place. It is estimated by the federal government that the economic impact of this congestion is a cost of between \$750 million and \$1.5 billion per year to the economy.

For many years the proposed South Fraser Perimeter Road (SFPR), which would bypass the Port Mann Bridge, the regions greatest bottleneck, has been available. This bypass highway would provide an alternate route from Highway #1 near 200th Street in Langley, along the Fraser River under the Port Mann and Patullo Bridges, to the Alex Fraser Bridge, then across Delta to connect with Highway #99, the Delta ports, the ferries, YVR and points both north and south. A completed SFPR would dramatically reduce the volume of large slow-moving vehicles along the highway and over the Port Mann Bridge where the greatest volume of commuter traffic enters Highway #1.

The SFPR is currently part of a significant investment of \$3 billion under the “Gateway Project.” While the Chamber has welcomed the support shown by the federal government to addressing many of the transportation challenges we have been disappointed by the lack of support shown for the SFPR..

THE CHAMBER RECOMMENDS

That the federal government undertake to fund their share of the necessary transportation infrastructure improvements to facilitate the construction of the South Fraser Perimeter Road.

Rail

The ability of BC to serve as Canada’s Gateway will be dependent on the ability of the rail network to efficiently move goods while mitigating negative impacts on communities along the rail corridors.

Expansion projects like the current proposals for a new container facility at the Port of Prince Rupert and the plans to expand Delta Ports and develop additional sidings will significantly

increase the frequency and length of rail shipments to and from the ports. It is critical that any project that will increase the capacity and frequency of rail traffic also provide funding toward infrastructure development at critical level crossings in high risk communities.

While these critical infrastructure improvements are in progress the Chamber is concerned that our international rail corridor has been overlooked as both a mover of goods and also a critical way to get people of our increasingly clogged roads, particularly at US border crossings.

The Chamber believes that the federal government has a critical role to play here by partnering with the province and the private sector on the construction of an expansion of a rail siding at Colebrook that would facilitate the ability of goods and freight trains to pass each other on the Vancouver to Washington and Seattle route.

THE CHAMBER RECOMMENDS

That the federal government;

1. work with the provincial government to provide funding for, and proceed with, the planning and construction of grade separations at level crossings that are deemed to be critical; and
2. include funding for infrastructure development in future expansion projects that will increase rail movement throughout BC.
3. work with the provincial government to provide funding to assist necessary construction of this needed rail siding facility at Colebrook

Fiscal Policy

In recent years, the federal government has made significant progress on the fiscal front. Fiscal 2005-06 marked the ninth consecutive year the Government of Canada recorded a surplus.

The Chamber was pleased to note the announcement by Finance Minister Flaherty that for the first time in nine years program spending at the federal level will actually decline and encourages the government to continue to review spending to eliminate or reduce wasteful spending.

In particular the Chamber was pleased to note that the government resisted the urge to use the \$13.2 billion surplus to announce unaffordable new program spending initiatives and have instead invested in the future through a reduction in the debt burden. The Chamber has been consistent that the key to the long term future economic prosperity of the province and the country will be reducing the debt burden we leave to future generations.

This aggressive approach to controlling public spending and debt is a clear and welcome indication of a commitment to sustainable financial management that will ensure our ability to invest in long term growth and prosperity for all Canadians.

However significant these achievements may be, there is still much more work to be done as Budget 2006 initiatives do little to boost productivity. Canada's success into the future will continue to rest with sound fiscal management coupled with productivity-enhancing policies. Economic prosperity is by no means guaranteed unless we pursue and adopt smart policies that make Canada an attractive location for individuals, businesses and investment. Strategically focused, smart policies, must include a focus on further reducing government debt. Cost savings realized from lower interest payments would make room for budget initiatives that can improve the standard of living of, and ultimately contribute to the quality of life of all Canadians. On the

spending side, wise choices are just as important. Government spending priorities must include those areas that can have a direct bearing on our productivity and competitiveness as a nation and enhance our economy's ability to grow.

A Strategy for Managing Government Spending

Program spending at the federal level rose at an average annual rate of 8.2% between fiscal 2000-01 and fiscal 2004-05, well above the pace of Canada's economic expansion, as larger-than-anticipated budget surpluses dissipated in new spending at fiscal year-end. Program spending increases of this magnitude over long periods of time make it very difficult to continue on a path of debt reduction and tax relief that is so crucial to ensuring economic prosperity.

In general, the Chamber would suggest that growth in government program spending should never outstrip growth in the economy (that is, nominal GDP). The Chamber, however, goes one step further and recommends a cap or an upper limit on the growth of government program spending of approximately 3% per year based on anticipated growth in population plus inflation. This would keep program spending constant in real per capita terms on a going forward basis. This strict discipline is part of a more comprehensive fiscal program that would enable us to drive down the debt burden faster and have some room for tax relief.

Key to controlling spending is managing health care costs. In the past eight years, more than 40% of all the increase in government spending has been allocated to health care initiatives. The rapid increase in public health care spending is simply financing a more costly system, not a better one. Health care costs must be controlled and efficiency in the system improved in order to ensure that Canadians not only have access to high quality, publicly funded health care over the long-run, but they are also able to pay for, and benefit from, other programs like post-secondary education and infrastructure. The federal government must get together with the provinces and territories to undertake meaningful health care reform and make the system sustainable.

Moreover, the federal government must examine and undertake reforms to Equalization and Territorial Formula Financing. The Chamber has made comment on the equalization Program under its submission on "Restoring Fiscal Balance in Canada." This submission focused on the fact that the philosophy and structure underpinning the Equalisation Program has contributed to a dependency culture among many provincial governments thereby exacerbating the fiscal imbalance that exists between the provincial and federal governments.

If the Canadian equalization system is going to serve its intended purpose it needs to be reformed to ensure that it is underpinned by the fundamental principles of fairness and equity. Otherwise, the equalization system will increasingly become a greater burden on Canadian tax payers, who single-handedly fund the transfer program, and will continue to reward provincial governments for not pursuing economic development or the development of non-renewable natural resources to try and achieve some level of financial self-reliance.

The federal government must also refrain from undertaking last minute (i.e. fiscal year-end) new spending initiatives. Last minute spending binges are not an efficient or effective use of public funds and are very difficult to unwind. We should plan to use any unanticipated fiscal dividend wisely, and avoid squandering this opportunity through piecemeal spending increases.

The Chamber also believes the federal government must continue to review all programs on a regular basis. In this regard, the Chamber was pleased to see that the new government achieved its Budget 2006 commitment to identify \$1 billion in savings. The Chamber encourages the government to undertake a rigorous review of all programs, and to continue to do so annually, but

in particular given the priorities and plans of a new government, to determine where the payoffs are the greatest and to identify areas where spending can be reduced or eliminated. The government should also explore the use of “sunset clauses” in both existing and new programs to ensure that all spending is critically evaluated on an ongoing basis. Included in program spending review should be an evaluation of whether activities or spending should properly remain at the federal level or should be undertaken by the provinces/territories, and to the extent that there exists an imbalance between federal requirements and taxing powers and those of the other levels of government.

THE CHAMBER RECOMMENDS

That the Federal government;

1. Limit growth in program spending to approximately 3% per annum based on anticipated growth in population plus inflation (i.e. keep real per capita spending constant over the medium term).
2. Continue to review all programs every year to determine where the payoffs are the greatest and to identify areas where spending can be reduced or eliminated.
3. Consider the use of “sunset clauses” in all program spending.
4. Get together with the provinces/territories to undertake productivity improvements and other meaningful health care reforms to make the system sustainable.
5. Eliminate all remaining direct and indirect subsidies except for emergencies and national crises to all industries and businesses unless these measures (including tax credits and other measures in the tax system) play a key role in promoting knowledge, skills development and innovation or are critical to building and maintaining infrastructure of the economy. At the same time, ensure that Canada has a competitive tax system, trade policy that promotes growth through opening markets domestically and worldwide, and a regulatory policy that avoids unnecessary burdens on business or industry and constrains market forces.
6. Review all remaining Crown holdings to see where greater efficiency gains can be realized by transferring control of a publicly-owned and operated enterprise (or public service) to the private sector.
7. Evaluate whether activities or spending should properly remain at the federal level or should be undertaken by the provinces/territories to the extent that there exists an imbalance between federal spending requirements and taxing powers and those at the provincial/territorial level.

Ensuring On-Going Debt Reduction

Despite the significant progress that has been made in reducing the federal debt burden (debt as a share of GDP), it is still high by historical standards. In the 1960s, when there was sustained fiscal balance, the federal debt-to-GDP ratio steadily declined from 36.0% in fiscal 1960-61 to 23.0% in fiscal 1969-1970. When the federal debt burden fell to below 30% in the 1960s, interest charges consumed 12 cents of each revenue dollar. In fiscal 2005-06, federal public debt charges consumed an estimated \$33.7 billion (2.5% of GDP) or about 15 cents of every dollar of revenue. Annual servicing costs are still the largest single expense of the Government.

In Budget 2006, the federal government stated that it is targeting \$3 billion of debt reduction in both fiscal 2006-07 and 2007-08. The federal debt-to-GDP ratio is on track to fall to below 32% by fiscal year 2007-08 and the new government in Budget 2006 set an objective to reduce the debt-to-GDP ratio to 25% by 2013-14 which the Canadian Chamber fully supports provided the savings go to taxpayers as a tax cut and not more spending. It would also free funds to help meet the requirements of an aging population. The OECD, in its *Economic Survey of Canada*, noted that demographic pressures will weigh on public finances and public debt needs to be reduced to

make room for future pressures. Between 2011 and 2016, Canada will witness a profound change in the makeup of its labour force. Growth in the working age population will virtually stagnate and post 2016 it will decline. The cost of financing the needs of an aging population (for example, for health care, public pensions, and long-term care facilities) will be increasingly shouldered by a shrinking percentage of workers. We need to reduce our debt load now to prepare ourselves for the fiscal strains of the baby boomers' retirement.

The Chamber was disappointed to see that the federal government in Budget 2006 did not allocate funds for economic prudence. These funds have been traditionally set aside in the fiscal projections to cushion against unforeseen circumstances. The Canadian Chamber believes that economic prudence should be reinstated in order to ensure the integrity of fiscal projections. The federal government also had traditionally set aside \$3 billion annually in a Contingency Reserve to cover risks arising from adverse errors in the economic forecast. In the past, the Contingency Reserve was committed to debt reduction if it was not used. In the 2006 budget, the Contingency Reserve was removed but there is a promise to have \$3 billion in debt reduction each year, which matches the amount of the old contingency reserve. Presumably, if the government ran into financial difficulty, the first reduction made in order to balance the budget would be to scale back the pay down of debt. Thus, there is no real change other than in name.

THE CHAMBER RECOMMENDS

That the Federal government;

1. Bring down the debt-to-GDP ratio to below 25% by 2012.
2. Re-introduce the Contingency Reserve and the reserve for economic prudence.
3. Continue to allocate the \$3 billion contingency fund if unused to debt reduction. If the economy performs as forecast, the reserve for economic prudence should also be committed to debt reduction.
4. End the practice of last minute (i.e. fiscal year-end) new spending initiatives. Allocate all unanticipated surplus arising at year-end to debt reduction.

Conclusion

In the final analysis, the Chamber has three objectives that must be consistent: Bring down the debt burden to below 25% by 2011-12, limit program spending increases to 3.0% per annum and allocate most of the available planning surplus to tax reduction to make Canada more competitive internationally.

The Chamber calls on the government to show the vision and leadership that are essential to tackle the significant issues that are faced by Canada as it strives to address the challenges we face in building an economy that lays a foundation for sustainable long term growth and prosperity.

The Chamber believes that Budget 2007 must send a clear message to the business community and to international investors that Canada has a vision for the future and has a clear plan of how we can achieve this vision.

The Chamber believes that Budget 2007 is both an ideal opportunity, and more importantly has the potential to be a defining moment in the mandate of the new government. Our members expect the government to show that when it comes to government finances and fiscal responsibility Canada has elected a government that understands that action is more important than rhetoric.