

Address to the Economic Leadership Speaker Series

Notes for Address by **Stephen Harper, MP**
Leader of the Opposition

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Ladies and Gentlemen, Thank-you all for being here today.

I want to thank the sponsors who are supporting this event: Corporate Research Associates, Deloitte and Touche, the Greater Halifax partnership, and of course the Atlantic Institute for Market Studies. It is a particular pleasure for me to address a luncheon put on by AIMS. I have known your president, Brian Lee Crowley, personally and professionally for many years, and I have often told him privately that AIMS is Canada's best research institute per dollar spent.

Let me elaborate a bit on that comment. This institute regularly publishes quality material focused on Atlantic Canada. But these are not about Atlantic Canada in any narrow sense. Inevitably this research speaks to, and is reported throughout, the country as a whole.

In fact, the best AIMS research is always relevant beyond this region and this country. It is about what works and what doesn't work in advanced economies generally. Take two of this organization's seminal publications, Road to Growth and Retreat from Growth. They are not simply about how to move Atlantic Canada ahead or why it fell behind. They are about the policies appropriate for any region or country to achieve its potential. It is, as these volumes point out, bad policy, and bad policy alone, that is at the root of our problems.

That's why I returned to politics – to deal with policy, to develop and articulate alternatives. I believe that only the rigorous application of sound public policy will allow us to move past the reality that most troubles me about contemporary Canada: though we have all the resources, both natural and human, to be the Number One country in the world in every category, we are as a country falling behind. Economically, we witness more and more people, especially young people, seeking professional and educational opportunities elsewhere. The quality of our health care and other public services is threatened, while the health of our democracy lags behind other western nations that have achieved substantive reform. Our place in the world is undermined by the rapidly deteriorating state of our Armed Forces.

None of this makes sense. We have a solid political culture with deeply rooted democratic traditions; we have a remarkably peaceful history; we are a nation of innovation and creativity; we have, and have demonstrated to the world, a sense of compassion and fair play; and when great challenges arise, as they did, for example, on September 11, 2001, Canadians as a people will rise to face them.

But we have a fault, it is that we tend to worry more that “things could be worse,” rather than “things should be better.”

I believe that under successive governments, but especially the present Liberal government of Jean Chrétien, this thinking has been encouraged. And the consequence has been this Prime Minister's legacy, which is, quite frankly, one of complacency. And we must now scale a high glass wall of complacency if we are to meet some significant challenges and achieve our potential.

As recently as the 1960s, Canada's economic wealth per person was similar to that of the United States, and the Canadian dollar was worth as much as the U.S. greenback. But Canada has lost considerable ground. Here are some of the sobering facts:

- We are now, as average individuals, about 35 percent poorer than our American neighbours – 45 percent poorer if we look at our average disposable incomes;
- Ontario, our richest province, now has a lower per-capita income than the poorest of American states – Mississippi;
- Our lower long-term growth rates and higher unemployment rates reflect a significant productivity gap between ourselves and the United States – Canadian productivity began a further decline relative to the U.S. when the Liberals took office, falling from 87 to 81 percent of American levels;
- All these trends have been reflected in the continuing long-term fall in the Canadian dollar, which has lost nearly 40 percent of its value, falling over 10 cents during the tenure of this government alone.

This region reflects these same trend lines, but even more dramatically. In the 1960s, economic growth in this region was higher than Canada's as a whole, and unemployment rates had been falling toward the national average. Then, the massive Liberal policy of activism in the 1970s – which has been deepest and most prolonged in Atlantic Canada – resulted in the region reversing course and losing ground. The unemployment gap between it and the rest of Canada doubled, and private sector investment growth stopped dead.

This pattern is deep and persistent – a CD Howe study showed that compared to American border-states, Canadian provinces have wider disparities in income and employment. While poorer American states have largely caught up to the national averages, the same cannot be said for poorer Canadian regions.

But I am not here today to announce some grand new scheme for Atlantic Canada. I want to talk instead about some of the things we need to do to get the entire country back on track. I want to talk specifically about federal fiscal policies – about our taxes, debt levels and federal spending.

And I want to begin this fiscal discussion by talking about Paul Martin – about his record and his plan in these areas. This is only fair. Finance is the only portfolio Mr. Martin ever held before his dismissal in June, and he held it through the entire Chrétien era. His phantom campaign for the Liberal leadership, his status as the new liberal “Messiah in waiting” is based almost exclusively on taking credit for the accomplishments of this ministry. Yet Mr. Martin steadfastly refuses to take responsibility for Canada's economic situation or even the overall fiscal policy record.

On the surface, and under considerable pressure from my party, Paul Martin sometimes did the right thing. For example, after ignoring the problem in his first budget, Paul Martin did something about the deficit in 1995.

But how did Paul Martin eliminate the \$40 billion deficit? Between 1995 and 1998 tax revenues rose by \$30-billion while program spending fell by one third that amount.

And of the \$10-billion reduction in expenditures, \$6-billion came from a reduction in health transfers to the provinces.

Mr. Martin cut spending in Ottawa's own backyard by two percent, cut military spending by almost twenty percent, but cut Health spending by one-third. These ratios are the exact opposite of what you would find in any provincial budget – yet nearly every province managed to balance its budget.

From this era, Paul Martin gets his reputation as a ‘fiscal conservative’. Yet, almost unnoticed by most commentators, Paul Martin the ‘fiscal conservative’ disappeared from sight long before he left the federal cabinet and became a full-time flipper of hamburgers.

Take a look at federal program spending since the last election.

Three years ago, Ottawa was spending about \$110-billion dollars on programs. That jumped to almost \$120-billion in 2000-01, and to nearly \$130-billion last year. And the trend is continuing this year.

In other words, Paul Martin has been increasing spending by about \$10-billion per year. And so far this year, spending is up by seven percent over last year.

Increases of this magnitude haven’t been seen in this country since the worst fiscal excesses of the Trudeau government of the 1970s – which makes Mr. Martin a fiscal Liberal of the highest order.

The Paul Martin spending spree of the past few years means that Canada has missed a golden opportunity to make our tax rates competitive.

In fact, Paul Martin saw revenues increase by \$20 billion over the past three years. But that has not been sufficient.

Each year brings a new round of Canada Pension Plan premium hikes.

Paul Martin has continued to build huge surpluses in the employment insurance fund and has inflated premiums to redirect into general revenues.

In his most recent budget, he moved to further swell general revenues with a so-called security tax on airline tickets – a tax that hits hard on an industry that has seen bankruptcy after bankruptcy over the past decade and hits hardest on small, short-haul airlines.

But if Paul Martin had slipped into tax-and-spend before his dismissal by the Prime Minister, it was just a foretaste of what was to come.

Since leaving cabinet, he has been criss-crossing the country, using code words that Liberals understand to mean one thing: under a Martin government, the spending taps will gush. Two examples:

- In late May, Mr. Martin was proposing a “New Deal” for municipalities that, while sketchy, almost certainly means new spending and/or new taxes;
- In mid-July, Martin mused about opening the taps for aboriginal programs, which are already suffering too much from poorly-directed and unaccountable billions.

While Martin has been shy on specifics – what we like to call the ‘details deficit’ – it is clear that he intends to rally Liberal supporters by pushing a new tax-and-spend agenda.

And over the summer, Chrétien and his cabinet supporters have been playing catch up to the tax-and-spend agenda of Paul Martin. Again, a few examples:

- A \$10 to \$15-billion Trans-Canada twinning proposal;
- A \$2.7-billion doubling of maternity leave proposal;
- Proposals to raise new gas taxes for cities and/or health care;

- \$3-billion for rail transportation; and,
- the on-again, off-again Kyoto Energy Accord debacle. This one proposal, if implemented, will cost billions – not just in taxpayers’ dollars, but by the government’s own estimate, it will cost \$40-billion cost to the Canadian economy.

As part of the trend, we are told that a group of Liberal thinkers will gather later this month to outline a new agenda for the Liberal Party, post Chrétien. The most remarkable thing about this group is that they have purported to be on the cusp of “new thinking” for thirty years – longer than Chrétien and Martin have been duelling in the Liberal Party – but have not had a new idea in that entire time unless it involved spending and taxing in the billions.

And, of course, he most recently failed to rule out increases to the GST.

At least, though, the debate is now clear. After nine years of utter complacency, with Mr. Martin we would at least have a prime minister leading us in an activist direction, even if it is a tax-and-spend Liberal activist direction. For us in the Canadian Alliance, this is at least a debate about where this country should be going. Our party has always been at its best when it is proposing clear alternatives.

And our party has an unequivocally different view of what this country’s fiscal policy priorities should be.

If you will allow me to frame the question this way – Do we want the gains of conservative fiscal policy to be used to slowly return to the Liberal of policies that got us into a fiscal mess in the first place? Should our remaining financial flexibility be used for pet projects of Liberal leadership rivals, government agencies, and liberal interest groups? Or do we want to ensure that these payoffs are returned to the pockets of ordinary Canadians and to the opportunities available for economic growth in the marketplace?

Our answer to how you build a strong national economy could be taken straight from Brian Lee Crowley’s forward to Road to Growth: “Public debt need[s] to be brought under control, taxes lowered, and excellent value offered in public services... Politics needed to be banished from decisions...and work incentives need to be improved.”

I want to concentrate on all three aspects of fiscal policy, but let me start with taxes.

Lower Taxes

First and foremost, it is time that Canada became aggressive about lowering taxes as a national priority.

Our national financial objective should be this – Canada must be Number One in North America, with the lowest tax rates across the board.

This is an ambitious objective, but it is far from an impossible one. Remember that the United States is burdened with defence and security obligations far higher than even the most responsible Canadian government will ever have to bear. And our spending on health care is not an obstacle – in fact, even today, the U.S. spends more per capita on public health care than Canada does. Let’s look at where we need to get taxes down.

Personal Taxes

First, look at personal taxes. Depending on the state or province in question (with the exception of

Alberta) the top marginal rates in Canada remain up to 10 percent higher than their American equivalents.

But the real kicker is that Americans do not pay their highest marginal tax rate until they are earning nearly \$300,000 – in U.S. dollars. Canadians, meanwhile, pay their highest marginal rate at incomes of \$103,000 – in much less valuable Canadian dollars.

In other words, if you look at the income level where Canadians are paying our top rate of almost half of each additional dollar earned, Americans are paying only about one third of each additional dollar in taxes. Clearly, this is unacceptable. These rates must come down.

And the level at which Canadians start paying taxes remains too low. Ottawa has not raised the personal exemption (other than for inflation) for at least 20 years. This means that Canadians start paying taxes at ridiculously low levels – just over \$7,000 for individuals. These personal exemptions must increase.

Payroll taxes are also rising in Canada. Massive hikes in CPP premiums have more than offset modest declines in EI premiums. The total payroll tax burden is 25 percent higher today than when the Liberals first took office. In addition, the federal government continues to use EI premiums as a general revenue slush fund. This must end – premiums must be lowered to cover outlays, and no more.

And of course, there is the new airline security tax. This tax was made necessary because Paul Martin could not find anything in his budget to cut back to make room for necessary security measures. This tax should not proceed.

Business Taxes

Now take a look at business taxes. Jack Mintz, President of the CD Howe Institute, has looked carefully at Canada's effective tax rates on business – the combined impact of taxes and subsidies on both capital and labour across a range of business activities. Worryingly, Canada's average effective tax rate is almost 15 percentage points higher than in the United States.

Corporate taxes, for example, must also continue to fall. Corporate tax reductions this year will still leave us with the second highest tax rates within the OECD. Canada also has various forms of tax on capital, capital gains and investment. Capital taxes, according to a Department of Finance study, cost the economy about \$7 for every \$1 raised in revenues. Worse, the US government does not even levy a capital tax. As unpopular as lowering some of these taxes is, we as a party will make the case that no one benefits from government taxes which are directed at productive investment activities.

Some of the money to cut these taxes can come from eliminating wasteful, destructive and expensive industrial and development policies that AIMS has so accurately documented.

Sales Taxes

On the sales tax side, the Canadian Alliance will not propose increasing the GST, as has been floated by the Romanow Commission, nor will we raise gas taxes to meet Kyoto commitments or to find new revenues for our cities. If the Canadian Alliance does anything in this area, it will be to vacate tax room for lower levels of government.

Paying Down Debt

The second item on the fiscal agenda is dealing with debt. Canada still has mountains of debt for both

levels of government and paying down this debt is essential to give room for ongoing tax reduction. This debt, by the way, amounts to well over \$25,000 for every Canadian. To this I would add our Canada Pension Plan unfunded liability at nearly \$20,000 per person, and a health-care unfunded liability at around \$17,000 per person.

The Liberal approach to debt has been haphazard at best. The Canadian Alliance would discard this haphazard approach and instead commit the federal government – as provincial conservative governments in Ontario, Alberta, and elsewhere have done – to a legislated debt repayment plan.

As you may be aware, I have recently announced that our party is fully retiring its debts to the banks. I want to be able to say the same thing to the country that I have said internally in my party – there is only one thing to do with debt, and that is to pay it down.

Prioritized Spending

Finally, we must have strict priorities for increased national spending. Our ongoing budget exercises for the Canadian Alliance have identified two areas – health care and defence – that were nowhere to be found in this summer’s tax-and-spend extravaganza.

On health care, we would subject any significant new transfers to the provinces to an agreement targeting clear, agreed-upon objectives for the infusion of new money.

On defense, the decaying state of our armed forces is not just putting the defense of the country at risk, but is threatening our reputation and clout on a range of international affairs and trade relations.

Beyond the areas of health and defense, the Canadian Alliance will argue that significant new initiatives be funded from within the existing budget envelope. Of course, we will also be arguing for the elimination of harmful and wasteful spending across a range of departments.

In summary, the best way to counter the Liberal activist agenda – and enhance prosperity for Canadians – is to lower taxes below our US neighbours, have a plan for debt reduction, and identify clear priorities for any significant new spending.

You may think that is too much of a challenge for governments today, but the same thing was said about my party’s goals for deficit reduction and other fiscal measures that we championed in the 1990s.

The Canadian Alliance is the only party in Ottawa that can offer a single, unified direction for the country to counter the Liberals’ return to an activist, tax-and-spend agenda.

When the Liberals raise taxes, the Canadian Alliance will propose cutting taxes. When the Liberals expand the size and scope of government, the Canadian Alliance will propose reducing our debt. When the Liberals spend recklessly, we will carefully select national priorities.

The Canadian Alliance is by far the country’s largest opposition party both inside and outside Parliament. It is a strong, united, experienced team with a long-term agenda for this country. And we have a country with unparalleled opportunity whose performance here and elsewhere has been impaired, as this institute has consistently demonstrated, only by policy matters entirely within our control.

But we must have alternatives and we must act. The Canadian Alliance exists for those who wish a freer, more democratic and wealthier future for our native land and its sons and daughters.

Thank you, and God bless Canada.