

Those four challenges, I would submit, are:

- Canadian fiscal policy;
- sales tax reform;
- the multilateral trade negotiations; and
- constitutional harmony.

Let me take each of these challenges in turn, starting with Canadian fiscal policy.

As we all know, it is absolutely essential that Canada continue to put its fiscal house in order to ensure a future of low inflation and low interest rates. And by Canada, I do not mean just the federal government. I mean all governments in this country.

Since 1984, my colleagues and I have been attempting to do just that. Much has been accomplished at the federal level; but more needs to be done. And to see the job through will require tough and, no doubt, unpopular decisions to further contain public expenditures.

Nor am I talking about merely eliminating waste, important as that is to secure public support. For the sad fact Canadians must accept is that any potential savings from the elimination of remaining waste and inefficiency fall far short of our needs. There is simply no easy way to bring our revenues and outlays more in line.

That's the bad news. The good news is that we are not as deep in the woods as some would think. We have indeed made substantial progress since 1984. By 1988-89, for example, the growth in the public debt had declined to 9.9% - the first time in 15 years that debt growth was less than 10%.

Program spending grew by only 3.6% a year in the four years ending 88-89 - an annual decline in real terms of .5 per cent over the period.

And there was a 45% cut in the size of the deficit relative to our economy. In fact, when one compares our situation with that in the United States, one finds that our net financial requirements - what the U.S. calls their unified budgetary deficit - has decreased to \$20 billion this fiscal year, and is on the way towards a balanced budget in the early 1990's. Our challenge now is to keep going, so our efforts since 1984 would not have been in vain.

A second challenge is to replace the existing manufacturers sales tax with the 7% GST.

I truly believe that any objective analyst would reach the conclusion that the replacement of the current tax with a modern consumption tax is essential to maximize Canada's prospects as we approach the 21st century.

The replacement of the current system with the GST will remove the current hidden tax on business inputs that deters job-creating investment in Canada and raises the cost of our exports.

It will remove the bias in the current tax in favour of imports - a bias that acts like a negative tariff on our own production here in Canada;

And together with the FTA, the GST will spur on economic growth during the 1990's, allowing us a better chance to service our debt without raising tax rates. The Institute of Policy Analysis in Toronto agrees. The Institute forecasts a future of steady three per cent