

composed largely of the borrowing costs associated with past government consumption, it is likely that there has been a higher level of imports into Canada as a result of fiscal deficits.

The fact that there has probably been a weaker than otherwise anticipated Canadian trade balance due to successive government deficits should not, on its own, be too disturbing. It is more worrisome that past fiscal deficits were based on government consumption and not productive investment.¹¹ Consequently, the fiscal deficits and weaker trade performances that have been incurred have contributed little to potential future economic growth. To the extent that deficit reduction can focus on lowering government consumption, the benefits are much more obvious, since the decline in government spending, including that on imports, will not adversely affect future economic growth.

Improved Competitiveness

According to the 1994 *World Competitiveness Report*, government plays a key role in determining relative international competitiveness.¹² Canadian competitiveness ranks sixth among G-7 countries (sixteenth overall), and is drawn down by a very low ranking government sector. The Report partially attributes a lack of entrepreneurial activity and individual initiative in Canada to the high foreign debt relative to GDP, the high deficit relative to GDP and the high level of government consumption. Following the logic of the Report, if fiscal restraint leads to a reduction in the relative size and influence of the Canadian public sector, it will foster an entrepreneurial spirit and ultimately strengthen Canadian competitiveness.

One means by which a large government sector can impede private sector initiative is by imposing a heavy tax burden. In Canada, total government tax revenues have increased from about 32% of GDP in 1980 to close to 38% of GDP in the early 1990s.¹³ A high and increasing tax burden is not conducive to improving international competitiveness. The tax burden in Canada is significantly higher than those of our major trading partners -- the United States and Japan. The only way for

¹¹ See Department of Finance, *Creating a Healthy Fiscal Climate*, Ottawa, October 1994, p. 7.

¹² See *The World Competitiveness Report 1994*, International Institute for Management Development, Lausanne Switzerland, and The World Economic Forum, Geneva Switzerland, September 1994.

¹³ See Department of Finance, *Canada's Economic Challenges*, Ottawa, January 1994, p. 48.