

Statement

Secretary of
State for
External Affairs



Déclaration

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Affaires
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CHECK AGAINST DELIVERY

NOTES FOR A SPEECH

BY THE SECRETARY OF STATE FOR EXTERNAL AFFAIRS,

THE RIGHT HONOURABLE JOE CLARK,

AT THE EDMONTON INN

ON THE GOODS AND SERVICES TAX AND SPENDING CUTS

EDMONTON, ALBERTA

January 10, 1990.

Summary of Speech

- The Goods and Services Tax may not be popular but it is necessary -- honest Albertans will recognize that this is the best way to change a system which now does serious damage to Alberta and Canada. P.1.
- It is always difficult to replace a hidden tax with a tax you can see. The present sales tax is well hidden. Many Albertans honestly believe they pay no sales tax now. In fact, the Manufacturers Sales Tax (MST) took over \$1.3 billion from Alberta in 1988, \$600 for every man, woman and child in the province. P.1.
- Previous government commissions didn't like it (the MST) because it's a hidden tax on Canadian exports. They didn't like it because it's a tax which subsidizes foreign industry trying to compete against Canadians in Canada. They didn't like it because it is a tax full of loopholes which cause you, and cause me to pay higher taxes elsewhere. P.3.
- The Goods and Services Tax is a replacement tax, not a new tax. It replaces a tax which punishes our exporters with one that puts our exporters on an even playing field with their foreign competition. It replaces a tax which rewards foreigners trying to get into our market with a tax which removes their unfair advantage. It replaces a tax full of loopholes with a tax which will be shared equitably and fairly across the economy and across the country. P.5.
- As a government we believe it is fundamentally irresponsible and unfair to ask our citizens to bear the cost of economic renewal if the government itself is unwilling to bear its full share to the burden. P.6.
- Fact one. In 1984, the Government spent \$16 billion more on government programs than we had coming in the door in revenue. This year we will be bringing in \$9 billion more than we spend. P.6.
- Fact two. The cost of operating the government is actually 10 per cent lower today than it was 5 years ago.
- Fact three. We've chopped the size of the civil service by 12,000 over the last 5 years.
- Fact four. Expenditures on government programs have fallen. By 1993 they will be at the level of the late 1960's. P.7.
- Fact five. Only Alberta has matched our record of controlling program expenditures.
- Fact six. We've sold off or dissolved 18 Crown corporations.
- Fact seven. We have done all this at a time when new initiatives have been required in areas such as the environment, in support for East Coast fisheries, and in support for the ravaged farmers of Western Canada - who received in 1988 alone the equivalent of \$30,000 per farmer in federal support.

- We are cutting expenditures to ensure the taxes you pay go to pay down the deficit or to pay for services Canadians want and need. P.7.
- The Manufacturers Sales Tax is not a good tax but it does generate about \$18 billion per year. If we were to scrap that tax without replacing it, what services would we have to drop? Medicare? Defence? The old-age pension? And if the GST is not the right kind of tax to introduce as a replacement for the MST, can the critics propose a better one? P.7-8.
- For decades, we have been telling the people of Eastern Europe that our way is better, that democracy and capitalism work. What does it say to these people, who are trying to chart a new economic way of life, if Canada, with its traditions, its wealth and its experience, cannot confront economic reality squarely and fairly and take the hard decisions required to stay on course? P.9.

We Canadians are, perhaps, the luckiest people on this earth, born to wealth and to freedom in a world where most people will be poor and, in some sense, captive all their lives; we benefit from traditions of tolerance and law which protect us from the hatred and the violence that wound or destroy so many other communities.

Yet we have problems of our own which require skill and honesty if we are to solve them. Part of the reason for our good fortune is that, by and large, we have found the courage to take decisions which let us build on our extraordinary luck, rather than waste it, or split our community apart.

So, part of our good fortune is what we have made of it. Sir John A. MacDonalld built a nation from sea to sea. John Diefenbaker enlarged that vision to our north and to bring into full citizenship people who had been less than equal before - extending the vote to native Indians, creating an atmosphere where a Don Mazankowski is the Deputy Prime Minister of the country and the office reserved for British Dukes and Duchesses, or their Canadian equivalents, will now be exercised by Ray Hnatyshyn of Saskatoon.

We fought courageously in two World Wars and in Korea. We built the Seaway and satellite communications, and Medicare and the system of equalization, so our society can be both modern and compassionate.

In days to come, we must turn much more attention to what makes this country distinct as a community in a world looking for leadership. And now we have unfinished economic business - reforms in trade and taxes - to help us compete in a world that gets tougher every day.

I asked to speak to you today about the Goods and Services Tax - not because it is popular, but because it is necessary, and I believe that honest Albertans, when they have the facts, will recognize that this is the best way to change a system which now does serious damage to Alberta and Canada.

I know the GST causes real concern for people in service industries who were not taxed directly before. I know it is always difficult to replace a hidden tax with a tax you can see. And the present sales tax is well-hidden. Many Albertans honestly believe they pay no sales tax now. In fact, the MST took over \$1.3 billion from Alberta in 1988, \$600 for every man, woman and child in the province. Everyone here paid part of that sales tax.

This is my first speech of the 1990s. Over the last two weeks, I have been reminded that when Canada began the 1980s, I was Prime Minister. It would have been a different decade had our Government lasted longer.

Ten years ago, I was fighting an election campaign triggered by the defeat of the budget John Crosbie and I introduced. That Government had only eight months in office: as John Crosbie said, long enough to conceive but not long enough to deliver.

That budget would have raised the price of gasoline by 18c a gallon - to \$1.17 a gallon.

That budget would have also reduced the deficit to \$9 billion by 1984.

Instead, in 1984, the deficit was at a record high of \$38 billion. The price of gasoline was at \$2.14 a gallon.

That is not nostalgia. If Canadians had supported that 1979 budget, we would not have the economic problems Canada faces today. Nor, for that matter, would we have had the National Energy Program, or a constitutional agreement that left one province out, and thereby put the future of the country at risk.

Economic reform has been at the heart of the Progressive Conservative agenda: in 1979, in 1984, and now. That is why we ended FIRA and the NEP; why we have cut government spending and given effect to the most sweeping privatization package in Canadian history. That is why we have fought for the Free Trade Agreement, and are developing new markets around the world. And that is why we are embarked on tax reform.

Tax reform has two parts. The first part concerns taxes on income, where we have closed loopholes and built a fairer system. For example:

- We have imposed a minimum tax for higher income Canadians and a minimum tax on large corporations.

- We ended the tax loopholes for MURBs and luxury yachts.

- We abolished the Scientific Research Tax Credit which cost the taxpayers of this country hundreds of millions of dollars through abuse and scam.

And now we have embarked on the second part of tax reform - reform of the existing federal sales tax.

Since its introduction, this tax has been the subject of repeated criticism from successive governments.

The Rowell-Sirois Report on Taxation in 1940 looked at the MST - and didn't like it.

In the 50s, the Carter Commission on Taxation looked at the MST - and didn't like it.

John Turner, as Minister of Finance, put in place a Commission on Taxation which looked at the MST - and didn't like it.

They didn't like it because it's a hidden tax on Canadian exports. They didn't like it because it's a tax which subsidizes foreign industry trying to compete against Canadians in Canada. They didn't like it because it is a tax full of loopholes which cause you, and cause me to pay higher taxes elsewhere.

No one liked the tax - but until now no one has had the courage to change it.

Alberta is among the provinces hurt most by this existing sales tax we want to change. Let me give you three examples.

The first concerns our exports. Alberta exporters - of hightech products, of oil and gas, of canola - pay, on average, a one per cent federal sales tax on their exports abroad. They pay this tax for the purchase of products necessary to run their businesses:

- a wheat farmer in Peace River pays 13.5 per cent sales tax on his pick-up truck;

- Canadian Hunter, Alberta Natural Gas, Bow Valley Resources, Nova Corporation - indeed all oil and gas companies - pay a 13.5 per cent tax on the pipeline, fuel and smaller trucks they buy to get their gas to the market;

- Novatel - and every other Alberta hightech company - pays a 13.5 per cent tax on every computer, desk and filing cabinet they buy to make their business work.

The scandal here is that their competitors in Japan, in Europe and in the United States pay no such tax. In every other modern industrialized economy - 48 others to be exact - their governments have figured out that it is insane to punish their producers before they even get to the market.

This is not the end of it. The Manufacturers Sales Tax not only punishes our exporters seeking to sell abroad. It also rewards foreign companies seeking to sell in Canada. Let's look at Novatel again. Not only do they pay a 13.5 per cent tax on the cost of equipment necessary to run their business. They also pay a 13.5 per cent tax on the cost of marketing and distributing their goods.

So does Weldwood of Hinton who, like any other pulp and paper producer, must pay a 13.5 per cent tax on its fuel to get its products to the market - its distribution costs.

This would be fine, I suppose, if foreigners trying to sell their goods had to pay tax on their marketing and distribution costs. But they don't. They only pay tax on their goods at the border. They don't pay tax on the cost of marketing their goods in this country, or of distributing their goods across it. Those costs escape, scot-free. Once again, Canadian producers are punished. The foreigners are rewarded. That is the tax we are trying to get rid of. People who blindly oppose tax reform are, in effect, supporting a subsidy of foreigners.

There is a difference between being generous and being foolish. This tax is a fool's tax. It's so foolish the Government has had to agree to 22,000 specific exceptions to mitigate the tax's perverse and negative effects on production.

There is a third major flaw in the MST. It is full of loopholes. If companies or individuals have to pay taxes, then they should pay them equally and equitably.

These loopholes cost the Treasury \$300 million a year in lost revenue. This means that we have to raise taxes elsewhere - from individuals or companies - to compensate for this loss. And you know that it is only large companies who can afford the fancy legal footwork to take advantage of these loopholes. They can afford the scam. Small business cannot. And it is small business which is the engine of economic growth in Alberta as in the rest of the country.

The existing sales tax - the one we want to get rid of is a tax on traders. Canada is a trading nation. Alberta is a trading province. No developed country in the world depends more on trade than Canada and few provinces depend more on trade than does Alberta.

It is simply nuts for the nation most dependent on trade to also be the nation most severe in punishing its own traders.

For Canada - and Alberta - trade is not an option. It is our lifeblood. This Government's trade initiatives - the Canada-US Free Trade Agreement, our Europe 1992 initiative and our Pacific 2000 Strategy - reflect our commitment to future prosperity based on trade.

Look at the FTA. 70 per cent of Alberta's trade is with the United States. In opening our borders to free trade, Alberta's future prosperity will depend on our ability to succeed in that market. But I ask you, does it make sense to open our borders to trade and at the same time give a tax advantage to the opposition? Where is the logic in that? That is not responsibility and fairness in taxation. It is masochism.

The Goods and Services Tax will correct what's wrong with the existing sales tax. That's its only purpose. It is a replacement tax, not a new tax. It replaces a tax which punishes our exporters with one that puts our exporters on an even playing field with their foreign competition. It replaces a tax which rewards foreigners trying to get into our market with a tax which removes their unfair advantage. It replaces a tax full of loopholes with a tax which will be shared equitably and fairly across the economy and across the country.

According to the Conference Board of Canada, this tax reform will increase the growth of the Canadian economy. Because of the nature of the western Canadian economy, it will help us more than most.

That's because Alberta has an export-driven economy, which will be freed from the unfair advantage given to foreigners.

That's because Alberta has a resource-based economy, whose resource sector will no longer pay a tax on production equipment while foreigners escape without penalty.

And that's because Alberta has a capital intensive economy whose businesses will cease to pay a tax on the goods they need to build their products.

No longer will Nova Corporation, Bow Valley Resources or Alberta Natural Gas pay an extra tax on their transportation pipelines, their smaller trucks, or energy they use to get their product through the pipeline.

No longer will Willowglen Systems, Novatel or Myrias Research Corporation pay an extra tax on their building materials, their office equipment, their computer systems.

And no longer will Canfor, Millar Western or Alberta Newsprint pay an extra tax on the fuel they must use to get their forestry products to market.

I think it's time for honest talk in Alberta about the sales tax. Let me quote from a letter my office received from Ron Watkins, Vice President of Interhome Energy Inc. of Calgary.

"We view the GST as an improvement to the present federal sales tax and an important component of the government's efforts to manage the nation's deficit. Adoption of the GST, however, should be accompanied by a continuing government commitment to specific expenditure reduction goals."

Mr. Watkins refers to two things apart from the GST: the deficit and expenditure reduction.

I would understand - even share - a resentment of the GST if the government was neglecting its responsibility to control expenditures or to reduce the deficit.

As a government we have a covenant with the citizens of Canada. It is this: it is fundamentally irresponsible and unfair to ask our citizens to bear the cost of economic renewal if the government itself is unwilling to bear its full share of the burden.

I believe we have kept this covenant. The following facts speak for themselves.

Fact one. In 1984, the Government spent \$16 billion more on government programs than we had coming in the door in revenue. By 1988, this deficit had been eliminated. In fact, this year, we will be bringing in \$9 billion more than we spend. This money will be used to pay down the deficit. This means that if we weren't paying off the debt accumulated by past governments, we'd be running a surplus.

Fact two. The cost of operating the government - paying the salaries of civil servants, paying for equipment and maintenance, etc. - is actually 10 per cent lower today than it was 5 years ago. And that doesn't even take into account inflation. Petro-Canada hasn't matched this record. Imperial Oil hasn't matched this record. Shell hasn't matched this record. In fact, I am aware of no major oil company that can match this record.

Fact three. We've chopped the size of the civil service by 12,000 over the last 5 years. In the previous five years, the government increased the size of the civil service by 4,000. It's now down to the level it was at in 1973.

Fact four. Expenditures on government programs have fallen by about 15 per cent as a proportion of our gross domestic product. By 1993, they will be at the level of the late 1960s.

Fact five. Only Alberta has matched our record of controlling program expenditures. No other province has even come close. And provincial governments don't have to worry about the billions of dollars of fixed payments to provinces. This year Ottawa transferred \$33.5 billion to the provinces, including \$2.4 billion to Alberta.

Fact six. We've sold off or dissolved 18 Crown corporations. That's more privatization than ever undertaken by all the provincial and federal governments in the history of Canada.

Fact seven. We have done all this at a time when new initiatives have been required in areas such as the environment, in support for East Coast fisheries, and in support for the ravaged farmers of Western Canada - who received in 1988 alone the equivalent of \$30,000 per farmer in federal support.

We are cutting expenditures to ensure the taxes you pay go to pay down the deficit or to pay for services Canadians want and need. That is the purpose of the federal sales tax.

The MST will yield \$18 billion in revenue this year. If we axe that tax, we have two choices: either to build a better tax, or scrap \$18 billion worth of Canadian services. We are not talking here about one or two programs. Anyone who tells you that we could raise that kind of money by ending bilingualism and terminating cultural grants is lying. The dollars just don't add up.

Anyone who proposes an \$18 billion cut in federal spending is proposing to scrap major Canadian services. That could be Medicare. It could be national defence - or old-age pension - or school and hospital services. That's what would be required to save the money foregone by abandoning the sales tax.

Let those who say they don't like the GST tell you which services they would cut. Or let them tell you what other tax they would impose to make up the shortfall.

Let them tell you how they would fund medicare, how they would fund the old-age pension, how they would fund national defence, and how they would fund our schools and hospitals.

Or, let them tell you what they would cut if they didn't cut medicare, or old-age pensions, or national defence, or support for schools and hospitals.

The answer is that no such answers exist. The claims of the critics just don't add up. It's as simple as that. This is a test of honesty. Next time someone opposes this tax reform, ask them if they want to continue to subsidize Japan against Alberta, because that is what we are doing now. If they want no sales tax at all, ask them to spell out, in detail, where they will cut \$18 billion in services this year. Ask them to be honest.

We recognize that no tax is popular. There is no such thing as a good tax. But there are bad taxes. And the MST is a bad tax. That's why we're replacing it. That's why we conducted public hearings across the country, and listened to the concerns of Canadians about this tax. And that is why, before Christmas, Michael Wilson announced a reduction in the rate of the proposed tax, and other changes to its operation.

We have put forward all the information that is available to us. We are prepared to meet serious critics with serious answers. But there is an obligation at issue here. The obligation is honesty. The critics of the new tax must either be honest and defend the old tax that hurts Alberta so much or be honest and spell out what deep cuts they propose in existing services in order to allow the tax to be dropped altogether.

My friends, we have a challenge as a country, and as a province. We have bills to pay. We have a deficit to eliminate. We have programs to fund - programs which heal the ill, educate our children, protect our elderly, protect our fishermen and farmers.

We have not simply trimmed expenditures. We have slashed them. We're beyond trimming the fat. We're into the flesh and into the bone. We'll continue to look for new efficiencies, better ways to do things. When we find them, more will be done to reduce expenditures.

There is a covenant to keep. The covenant of fairness and responsibility in taxes. And fairness and responsibility in expenditures. We have kept that covenant. We will do so in the future.

Allow me to conclude with two personal observations.

My job as Foreign Minister has not been made any easier by the expenditure cuts we have had to introduce. Canada is judged abroad by the level of effort we put into things like foreign aid and national defence. Our influence depends on the embassies we maintain abroad, and on the programs we mount to exert that influence. All of these have been cut.

But there is a more fundamental point here. The health of the Canadian economy is the singular condition for power abroad. It will become even more so as we enter this last decade of the millennium. A country without economic prosperity is a country without power. Fancy embassies, opulent residences or flashy cocktail parties cannot compensate. And after all, it's the primary responsibility of a government to safeguard the wealth of its own citizens and the prosperity of its own people.

One final observation. I can't help but think of the recent remarkable events in Eastern Europe when I listen to debates in Canada about whether it is unjust to tax a bucket of fried chicken.

For decades, we've been telling the peoples of Eastern Europe that our way is better, that democracy and capitalism work, that they deliver.

At long last, they have amassed the courage of their convictions and are embracing our way of life.

We are what they want to become.

What does it say to them if, with our traditions, our wealth and our experience, we cannot confront economic reality squarely and fairly and take the hard decisions required to stay on course.

And what, my fellow Albertans, do we say to our own future generations, if, confronted with one last chance at economic renewal, we backed off.

An economy cannot be sustained by fond wishes. Services cannot be paid for by rhetoric. Deficits cannot be reduced by declarations.

It requires hard work. It requires trade-offs. It requires realism. It requires honesty.

Our strategy of economic renewal is a strategy of realism. It may not win friends today. It may not win polls today.

But it will secure our future.

Ten years ago, Canadians had a choice between a budget policy that was honest and one that was not. We promised short-term pain. Canadians chose long-term pain, and we are still paying for it.

I remember a phrase by Sir John A. MacDonalld during in one of the controversies of his day. People told him that what he was doing was unpopular, and he agreed that it was. And then he said: "Look a little ahead, my friend".

And that is what we always have to do, to keep the extraordinary Canadian advantage.